

TRANSPORTATION

WEST CHINA AIRLINES ESTABLISHED IN XIAN

Xian SHAANXI RIBAO in Chinese 5 Nov 84 p 1

[Article by Guangming Ribao reporter Liu Bingyi [0491 3521 3832] and Shaanxi Ribao reporter Shen Yunjun [3476 7189 7486]: West China Airline Company Established in Xian--Combine Efforts of Army and People, Tap Potential To Develop Aviation Industry"]

[Text] The West China Airline Company, Ltd. was officially established in Xian on 4 November 1984. This company is the largest and strongest among the recently-established aviation entities that combines the efforts of the army and the people, adopts an independent management system and assumes sole responsibility for their profits and losses.

The West China Airline Company, Ltd. is formed jointly by the China Flight Test Center, Hong Kong's Zhaoshangju Shipping Ltd., the Shaanxi Branch office of the People's Bank of China and the general office of the Shaanxi Technological and Economic Advisory and Development Company. The China Flight Experimental Research Center is China's only aircraft appraising and testing unit. It has abundant technological forces and modern air traffic control equipment. Hong Kong's Zhaoshangju Shipping Ltd. has over 110 years of management history, owns over 120 enterprises and is very powerful. Shaanxi is China's major aircraft industrial base. It is on such a basis that West China Airlines was established. Therefore, it will make a positive contribution to the development of China's aviation industry.

West China Airlines operates mainly in the provinces of northwest and southwest China. It uses Hong Kong and Xian as main passenger and goods distribution centers. On the basis of developing goods and passenger transportation, it will also engage in such businesses as organizing goods sources, wholesale and retail sales of commodities, market information and tourism. Along with the business development of this airline, special and local products of the vast area of northwest China will be quickly shipped to international markets. Imported foreign goods and materials will be quickly shipped to northwest China. Domestic and international passengers will also be able to enjoy more conveniences.

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TRANSPORTATION

SHAANXI HIGHWAY CONSTRUCTION DEVELOPMENT

Xian SHAANXI RIBAO in Chinese 19 Sep 84 p 2

[Article by Sun Lin [1327 2651] and Fan Guojun [5400 0948 0193]: "The Development of Shaanxi's Highway Construction Is Encouraging"]

[Text] In the past 35 years since the founding of the PRC, Shaanxi Province's highway construction has developed rapidly. By the end of 1983, 36,832 km of highways in Shaanxi Province were open to traffic, an increase of 19.3-fold over 1948. An initial form of highway network which has Xian as its center and links all cities, major mining and forest areas and neighboring provinces has been established.

Prior to liberation, only 1,908 km of highways were open to traffic in Shaanxi Province. There were some 1,000 road maintenance workers. Brigades basically had stone arches. Since the founding of new China, Shaanxi's highway construction has developed rapidly. As early as the early 1970's, all counties were already accessible by highways and 70 percent of Shaanxi's 91 counties had asphalt roads. By the end of 1983, 99.3 percent of Shaanxi's 2,606 villages were accessible by buses. Now Shaanxi has 24,644 km of graded highways, of which 235 km are second-grade, 5,658 km are third-grade and 18,751 km are fourth-grade. Shaanxi has 19,350 km of surfaced highways, the second most in the country, and 7,760 km of first and second-class highways. Some 15,246 km of highways are open to traffic in all weather, an increase of 63-fold over the period prior to the liberation. In the past 35 years, Shaanxi Province has built 3,608 bridges with a total length of 116,503 meters and established a highway maintenance and construction contingent of 13,836 workers as well as a backbone technological contingent of a fairly large number of people who not only take on the task of maintaining and building highways in Shaanxi Province but also contract for engineering projects abroad.

Since the 3d Plenary Session of the 11th CPC Central Committee, people's governments at all levels have attached greater importance to highway construction, bringing about an initial upsurge in road maintenance and bridge construction. During the three-year period between 1979 and 1983, 3,256 km of highways were built. Even in the area where there used to be roads leading to Sichuan Province which were described in history as being more difficult to get to than heaven, there are now seven highways winding

through high mountain ridges. Shaanxi has also built 973 bridges--four on the Hanjiang alone. Some 17,260 km of highways have trees and shade. Highways on the central Shaanxi plain basically all have trees and shade. Shaanxi is vigorously building a first-grade highway between Xian and Sanyuan. It is 34 km long and will be the first first-grade highway in northwest China. According to the needs of Shaanxi's economic development in the future, we estimate that Shaanxi Province should have over 40,000 km of highways by 1990 to satisfy the needs of the development of the rural economy and tourism.

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SPEEDY BUILDING OF LOCAL RAILWAYS IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Li Yang [2621 7122] of the Huaiyin City Government: "Proposal on the Speedy Building of the Yihuai Local Railway"]

[Text] Some comrades maintain that we should vigorously develop railways in northern Jiangsu. I agree. Railways have the recognized advantages of large transport capacity, high speed, low production costs, economical freight rates and good economic results. We should use railways as the framework for communications in northern Jiangsu and develop highways, water transportation and civil aviation accordingly.

The current communications system of Huaiyin City consists of water and land transportation with emphasis on the former. Last year the freight volume of water transportation in this city exceeded 8.88 million tons, accounting for 46 percent of the total transport volume of the transportation system. The freight of water transportation consists mainly of coal, gravel, grain and some manufactured goods. Because the transport capacity of harbors and channels is insufficient, the navigation rate is only 27 percent and vessels are often "blocked in the middle (by ship locks) or stuck on both ends." Along with the future development of a commodity economy, freight and passenger volume is bound to increase continuously, relying on water transportation and highways alone will not do. We should consider building railways.

We suggest we quickly build a railway between Xinyi and Huaiyin and extend it to the south to Yangzhou, Nanjing, Yancheng and Nantong. If we put off building this line in the south, we can link it up with the Longhai Line in the North and connect it to the national railway network. We can also strengthen ties with Lianyungang harbor to help Huaiyin City open up to foreign countries. The 8 million people of Huaiyin City have long been looking forward to building the Yihuai Railway. Recently we invited some experts to conduct surveys for this project. Wherever they went, cadres and the masses applauded and ran around spreading the news. Some said: "Efforts to harness rivers in the past have given us the lifeline; building railways now can unclog arteries and propel our city's economy to develop by leaps and bounds." Others said: "Way back in the Qing dynasty, Qingjiang City

already built a short section of railroads. Today we have more conditions for speedy building of the Yihuai Railway." Some foreign friends who visited the former residence of Premier Zhou also suggested we build railways.

Drawing on the experience of Henan Province, we can build the Yihuai Railway as local railways to save on investment, reduce the construction time and achieve quick results. Our principle for the railway project is to mobilize the masses, raise funds from all fields, use local funds as the key and state funds as the supplement, support railways with railways and gradually improve railways after they are open to traffic. According to preliminary surveys, the total length of the Yihuai Railway is 110 km and the cost of building it is about 800,000 yuan per kilometer. It is estimated that the investment will be recovered in 7 years after the railway is put into operation. Comrades of Shuyang and Huaiyin counties, which are on the proposed Yihuai railway line, expressed their counties' willingness to contract for land requisition and labor. The Jinan Railway Administration said it can provide free used rails and equipment removed from state railways. If the Yihuai Railway Project is drawn up soon, it takes only 3 years to complete it--from preparation to test run. Henan Province has more than 1,300 km of local railways. We, too, are fully capable of building local railways in northern Jiangsu. If higher departments cannot reach agreement, it will not hurt to begin building the Yihuai Railway on a trial basis.

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ECONOMIC IMPACT OF WATER TRANSPORT IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Dong Wenhui [5516 2429 5706] of the Jiangsu Provincial Communications Department: "The Superiority of Water Transport in Northern Jiangsu Must Not Be Ignored"]

[Text] Northern Jiangsu now has 1,371 channels and 16,823 km of navigable waters, accounting for 71.5 percent of the mileage of channels in Jiangsu Province. In northern Jiangsu, rivers, lakes and seas are connected and river networks cover all areas (except for Xuzhou and Lianyung harbor where there are only a few river courses). Northern Jiangsu has had the superiority of vessels since ancient times. Water transportation occupies a decisive position in the whole communications network of northern Jiangsu. The major problem is underdeveloped channels. The overwhelming majority of channels are still in natural form. Harbors are poorly equipped, causing vessels to be stuck at both ends (of harbors) or blocked in the middle (by ship locks). The vast superiority of water transportation in northern Jiangsu has not been brought into full play. Then which shall we focus on when developing the communications of northern Jiangsu--rail or water transportation? Let us make an analysis and comparison:

First, let us draw on the experience of foreign countries. In the beginning of this century, inland navigation in the United States began to sag as railways rose. However, since the 1930's the federal government has adopted comprehensive measures to harness the Mississippi and its tributaries in regard to navigation, flood control and power generation, thus canalizing the river, connecting major and minor river courses and causing inland navigation to develop quickly again. Fully utilizing abundant and inexpensive water resources has become an important condition for developing modern industries in foreign countries. Eighty-two percent of U.S. steelworks and 93 percent of U.S. metallurgical enterprises are built on the banks of the Mississippi. Between 1952 and the end of 1977, more than 10,000 U.S. enterprises were built or expanded along the river, making the Mississippi the "industrial corridor" for iron, steel and chemical industries. Energy consumption of U.S. inland navigation is three-fifths lower than that of rail transportation, and its cost of production is three-fourths lower.

Let us take a look at the reality of northern Jiangsu. Northern Jiangsu is indeed endowed richly with water resources. There is only one large harbor

(Lianyung harbor) on its 1,000 km coastline. The long coastline awaits development and there is great potential of building sea ports and developing sea transportation. The 400-km bank line of the Changjiang now has two large and medium harbors--Nantong and Gaogang--and some simple docks. Many deep-water bank lines have not been utilized. Located on the lower reaches of the Changjiang, Jiangsu Province has wide rivers and deep waters. Between Nanjing and Hankou, 5,000-ton river steamers may be allowed to navigate all year and between Nanjing and the mouth of the Changjiang, 15,000-ton ocean vessels may be allowed to navigate on tide. The current freight turnover density of the Changjiang's trunk lines is equivalent to that of only one railway. It is estimated that the trunk lines of the Changjiang have the shipping capacity of more than 10 railways. It is evident that the Changjiang has great potential in transportation. The annual traffic volume of the 403-km long Subei canal has exceeded 20 million tons. The volume will increase by over 10 million tons after the canal's extension project is completed in 1987. Compared with rail transport, water transportation has the following advantages:

1. Good navigability and large carrying capacity. One Changjiang has the shipping capacity of more than 10 railways. Even a second-grade channel can match about two railways. The carrying capacity of vessels cannot be compared with other means of transportation. A train on general railway lines now can carry only 1,700 to 2,100 tons of freight. A 6,000-horsepower fleet on the Changjiang can carry an average of over 30,000 tons, more than what 10 trains can carry. After being dredged, the Subei canal can accommodate 1,000-ton barges. Two barges can carry about the same as one train does. Even on a sixth-grade channel which can accommodate only 100-ton barges a fleet can pull 1,200 tons of freight.

2. Small investment of construction and low consumption of materials. Building 1 km of railway in northern Jiangsu needs about 1.5 million yuan of investment. Developing channels needs very few investments because natural river banks can be utilized. Dredging sixth-grade channels needs only 200,000 to 600,000 yuan per km. Besides, building a 1,000-ton fleet of barges needs only 280 tons of steel products, but building a railway freight train of the same carrying capacity needs at least 400 tons of steel products.

3. Low energy consumption and transportation cost. Inland water transportation can pull 4 to 8 tons of goods per horsepower. The diesel locomotive of a railway freight train can actually pull only 0.74 tons per horsepower. After comparing the 1978 shipping costs of China's railways and the Changjiang's trunk lines, the departments concerned discovered that the shipping cost of rail transport is 18.9 percent higher than that of water transport per 1,000-ton km.

4. A little farmland occupation. Building 1 km of railway in northern Jiangsu needs to occupy about 40 mu of land. If we build the 280-km long Ningtong line, we need to use 11,200 mu of land. Since water transportation uses natural river courses, no land or little land will be occupied.

It is thus evident that water transportation is obviously superior to railways. The theory that industry and commerce develops faster wherever there are railways is not absolutely correct either. For example, the three counties of Peixian, Xinyi and Donghai are on the Longhai line, but their economic development is slower than that of Yangzhou and other counties in southern Jiangsu that are far away from railways. The key to the speed of economic development is whether or not traffic is unobstructed. The modes of transportation should be suited to local conditions. It would be hard for us to avoid one-sidedness if we simply emphasize the role of railways.

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TRANSPORTATION

ECONOMIC ROLE OF RAIL TRANSPORT IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Xu Xuejin [6079 1331 6855] of the Yancheng City Communications Bureau: "Use Railways To Bring Along the Urban and Rural Economic Community of Northern Jiangsu"]

[Text] Building the Subei Railway has long been the common wish of the people in northern Jiangsu. Along with the rapid and sudden development of industrial and agricultural production in recent years, the transport volume of import and export goods and materials will increase by a large margin. Existing highways and water transportation routes are already unable to suit the needs of such development. Building the Subei Railway is the fundamental solution to the problem of clogged communications.

One of the major problems is caused by the limited number, slow speed and high cost of the transportation routes in northern Jiangsu. Building railways can increase economic results. Practice has shown that because of the large transport volume, fast speed and low cost, railway transportation is superior to highways. As for water transportation, because of the poor conditions and small capacity of channels and the backward means of transportation, its cost cannot be lower than railways.

One of the lines of the proposed Subei Railway runs from Xinyi to Yangzhou via Huaiyin. We think something is irrational in this proposal because it cannot solve the real problem of backward communications in northern Jiangsu. The Grand Canal, located north of Yangzhou, can basically satisfy the transport needs of the area along its banks. Therefore, it seems unnecessary now to build railways in this area. In our opinion, the line should run from Lianyung harbor to Nantong and then connect Nantong with Pukou. This can connect the line with the Longhai line in the north and the Huning line in the south, linking up Xuzhou, Huaiyin, Yancheng and Nantong. Only by doing so are we really able to build the urban and rural economic community of northern Jiangsu that is centered in Lianyung harbor and Nantong to bring along Huaiyin and Yancheng.

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BRIEFS

VETERANS OPEN CONSULTING FIRM--Shanghai, 14 March (XINHUA)--Retired merchant naval officers have started a shipping consultancy center here. Officials of the global shipping consultancy center include China's first-ever pilot, Huang Muzong, 92, captains and maritime law specialists. The center's honorary director is Peng Deqing, former minister of communications, and now president of the China Marine Navigation Society. The center offers advice on maritime management, decision-making and technology, the organizing of maritime symposiums and translating technical materials for government organizations, groups and enterprises. Books written by officials of the center will be published soon, including "engine management," "elementary vessel operations" and "vessel communications." The center has completed a technical assessment on a shipwreck for the Shanghai Changjiang Shipping Company. [Text] [Beijing XINHUA in English 1430 GMT 14 Mar 85 OW]

OPENING POSTAL ROUTE--The postal route from Beijing to Taiyuan designed for heavy-duty trucks opened to traffic yesterday. During the past several years, with the news and publications services developing rapidly in the Capital of the PRC, the mail volume has grown year after year. A delay in the delivery of heavy loads of magazines and other mails remained the order of the day despite a series of measures taken by the Ministry of Railways and the Post Administration. To solve this problem, the Beijing Municipal Post Administration and the Shanxi Post and Telecommunications Administration have decided to open the postal route from Beijing and Taiyuan to heavy-duty trucks as part of an effort to supplement the railway mail services. A round trip taken by heavy-duty trucks along this route logs 13,000 kilometers and takes them 4 days to complete. This mail service is scheduled once every week. The special heavy-duty trucks used to deliver mail along that route are imported from abroad with each capable of carrying 13 tons of magazines and other parcels. [Text] [Beijing BEIJING RIBAO in Chinese 2 Dec 84 p 1] 9574

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ANALYSIS OF JAPAN'S POSTWAR STRATEGY IN TECHNOLOGY IMPORTS

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 10, 10 Oct 84 pp 68-73

[Article by Sheng Jiqu [4141 4949 0530]: "How Postwar Japan Carried Out Technology Import"]

[Text] In a short span of 15 years or so, by means of technology imports Japan mastered the technological achievements that took Europe and the United States half a century to accomplish and successfully realized the modernization of its science and technology as well as its national economy.

I. Technology Import Is an "Important Pillar" of the "Base the Nation on Trade" Strategy

Postwar Japan was an island nation deficient in natural resources, short of capital accumulation, technologically backward and with a very small market. Given these national conditions, Japanese monopoly capital and its government decided on a "base the nation on trade" strategy for the development of its economy. This strategy encompassed setting up industrial zones along the Pacific coast, vigorously developing foreign trade and relying on the import of technology and raw materials to develop a processing and manufacturing industry, opening up the international market, use of foreign exchange earnings from the sale of finished export products to pay for imported raw materials, technology and equipment, and in this way catch up with and surpass advanced countries in the world, fulfilling the strategic goal of modernizing science and technology as well as the national economy.

The difficulty in pushing ahead with the "base the nation on trade" strategy lay in the high transportation cost resulting from importing raw materials and selling products over long distances, which weakened the competitiveness of Japanese commodities in the international market. Under these circumstances, apart from developing its coastal industrial zones, improving its seaports, sea transport and other basic facilities and adopting advanced mass-transport in order to reduce cost, the most basic solution was to make use of advanced technology and equipment, modern production technology and methods as well as management and administrative techniques to reduce human and material labor consumption, increase productivity and reduce the socially necessary labor time of Japanese commodities to below that of other countries so that the average value of Japanese commodities would be less than the international

market value of similar commodities. Only thus would Japan be able to "sell commodities at a price higher than their individual value but lower than their social value" in the international market. Therefore, the success or failure of the "base the nation on trade" strategy hinged upon whether Japan could establish its technological superiority through technology imports and the use of foreign capital.

Importing advanced technology from abroad is a universal law and the only way for all backward countries to catch up with and surpass the advanced countries. At the beginning of this century, Germany succeeded in surpassing Great Britain because it introduced from Great Britain new technological achievements of the industrial revolution; the United States surpassed Europe in the middle of this century also because it imported advanced technology from the latter. It is especially true that postwar Japan achieved economic development by "leaps and bounds" through importing advanced technology and became the number two "economic power" in the capitalist world. Japan's strategic policy of using technology imports to catch up with and surpass advanced countries in the world has been entirely correct and successful.

First, it gained the time needed for catching up with and surpassing the leaders. According to an estimate in "An Introduction to Advertising" compiled by the Electronic Communications Co in Japan, it took an average of 5 to 7 years for a technological item to go into mass production from invention in the 1960's. However, it only took Japan about 2 and a half years from technology imports to mass production. Between 1950 and 1970 the amount of time Japan spent on mastering the 9,870 class-A technological items it imported was approximately one-fifth of what would have taken if it had started from scratch. In other words, by means of technology imports, Japan only took 10 to 15 years to complete the same course that had taken Europe and the United States half a century, thus providing a prerequisite for catching up with and surpassing advanced countries in the world and realizing modernization.

Second, it saved capital. According to estimates, between 1950 and 1970 Japan spent approximately US\$6 billion on technology imports and on assimilating and promoting them while the direct and indirect costs of the scientific research, testing and design required for the invention of these technological patents were approximately US\$180 billion to US\$200 billion. Research expenses of this size would have been an impossible burden for any single advanced European or American countries, much less Japan which was critically short of capital at that time. It was basically impossible to accumulate that much capital in a short span of 10 years or so. Therefore, by importing advanced technology, Japan was virtually saving a huge amount of capital for itself thereby speeding capital accumulation for the realization of its strategic goal.

Third, it increased productivity, reduced costs, improved product quality and initiated conditions for Japanese goods to enter the world market. The productivity of its principal export commodities such as steel products, ships, color television sets, high fidelity stereo equipment and automobiles far exceeds that of advanced European and American countries. Take for example the gross productivity of enterprises in the auto industry. In 1979

Japan's Toyota Automobile Corporation had an annual per capita production of 54.8 cars, which was 3.8 times higher than General Motors, 3.2 times higher than Volkswagen, 4 times higher than Fiat, and 15.6 times higher than British Leyland over the same period. Because of the absolute superiority of the productivity and rate of growth of Japan's principal export industries for a long time, Japanese monopoly capital has been able to easily promote its own commodities and under-price them in the international market and to continually increase its share of the market. As the Western press has freely and openly admitted: Owing to their relatively slow increase in productivity, European and American countries "could not but lose ground to their competing opponent not only in the world market but in their own domestic markets as well." There are many factors that determine the level of productivity, but "the main ones are scientific capability and technological capability." Moreover, the Japanese government believes that "technological advancement is mainly obtained through the introduction of technology from abroad."

Fourth, it promoted rapid growth of the Japanese economy. Between 1950 and 1970, postwar Japan realized a long period of 20 years of rapid growth which included the preparatory phase for rapid economic growth. The annual average rate of economic growth in the period was 9.7 percent. Japan's international economic status was greatly enhanced because of such growth. In 1956, the year of Japan's economic take-off, Japan's GNP ranked 7th in the capitalist world and still trailed India and Canada. But by 1967, it became an "economic power" in the capitalist world second only to the United States. According to the analysis of the well-known experts Watanabe Tsunehiko and Ekaitzu Tensei, between 1952 and 1961 the average production growth rate of Japanese industries as a whole was 10.54 percent, of which 67 percent had been caused by technological advancement. Moreover, according to the calculations of the well-known economist Shinohara Meiyohai and others, the average annual growth rate for the periods between 1960 and 1965 and between 1965 and 1970 was 9.7 and 11.6 percent respectively, of which 59.7 and 60.3 percent respectively could be attributed to technological advancement. In other words, the rapid growth of a technological economy mainly relied on technological advancement brought about by technology imports.

II. How Postwar Japan Conduct Technology Import

A. Setting up and strengthening a unified leadership system for technology imports and foreign capital utilization.

1. Formulating and perfecting related economic legislation, policies and systems. In 1949 and 1950 the Japanese government promulgated the "Foreign Exchange Law" and "Foreign Investment Law" respectively. The main purposes of Japanese monopoly capital and its government in enacting these laws were: (1) to actively promote the import of advanced technology; (2) to protect the healthy growth of national industries against the impact of foreign capital. In 1952, the Japanese government further promulgated the "Law for the Acceleration of Rationalization of Enterprises." Simultaneously, Japan also established a "subsidy system" to encourage the introduction of technology from abroad, providing enterprises which imported the most advanced technology with subsidies that were equivalent to one-half the import cost. All these legislation, policies and systems played an important role in safeguarding and

promoting the healthy and orderly import of technology and foreign capital.

2. Setting up and strengthening a reviewing body for the import of technology and foreign investment. As provided by the "Foreign Investment Law," the Ministry of Finance, the Bank of Japan and the Foreign Investment Council would serve as reviewing bodies for the import of technology and foreign capital. The import of class-A technology required the joint review and approval of the Minister of Finance and other responsible ministers concerned; details of import were handled by the Bank of Japan and the Foreign Exchange Bank. The Foreign Investment Council was chaired by the Minister of Finance, and council members consisted of deputy ministers from various ministries concerned as well as knowledgeable and experienced specialists. The membership was originally fixed at 10 and was later expanded to 15. All major items to be imported had to be investigated and reviewed by the council. The reviewing body was highly efficient because it was simple in structure, centralized and unified, defined in its authority and manned and managed by experts.

3. "Administrative guidance" system. This is a management system with considerable "hidden authority," that is, a system by which the government could intervene and control technology imports. Through various consulting agencies, the Ministry of International Trade and Industry would frequently call meetings with technical specialists to jointly study and decide on the orientation, emphasis and topics of technological development and imports for particular periods of time. In reviewing applications for technology imports by enterprises, the government applied the principle of "rewarding those that conform, barring those that do not." Therefore, to a certain extent it overcame indiscriminate import of technology. Occasionally the government even directly participated in technology import negotiations, forcing concessions from the exporting parties by means of reviewing procedures and causing them to withdraw excessively harsh terms.

B. Adequate preparation is the key to success in technology imports.

1. Keeping abreast of technological information inside and outside the country and importing selected items in a timely manner. Whether information can be grasped sufficiently, accurately and promptly is the key to the success or failure of technology imports. Hence neither the Japanese government nor private industries would spare any expenses in forming specialized agencies to collect and study technological intelligence. The government has set up its S&T intelligence center and various major industries also have specialized intelligence organs. The size of the intelligence organs of major trading firms is even more astounding. Mitsubishi Corporation, Japan's largest trading establishment, has 115 overseas offices throughout the world, employing 900 Japanese and 2,000 local personnel all engaging in intelligence gathering, and technological intelligence forms an important part. Mitsui Company named its intelligence organization the "Mitsui Universal Communication Network." It has 5 computerized communication centers located in Tokyo, New York, London, Sidney and Berlin, with exclusive communication lines 400,000 kilometers in length. All these communication centers are interlinked by satellites. It takes only 5 minutes to communicate between any two points farthest apart on earth. The headquarters in Tokyo alone processes

30,000 pieces of information each day. There are also hundreds of think-tank agencies such as Noudmura Research Institute of Technology and Economics and Mitsubishi Research Institute which specialize in gathering and studying information and which provide consultation services. They have a sizable pool of first-rate specialists from various disciplines who are able to provide compensated services in technological information and its evaluation at any time. They can also make medium and long range analyses and forecasts on trends in S&T developments thereby pointing to the right direction for technological development and imports. In this way, when importing technology, the various enterprises are enabled to "make informed decisions easily and conduct imports in an assured, accurate and timely manner."

2. Preceding imports by scientific scrutiny and striving to be foolproof. Prior to importing technology, Japan generally made feasibility demonstrations particularly with major technical policy decisions. For example, in the early 1950's the shortage in electric power supply became a "stumbling block" for the recovery and development of the Japanese economy. As a solution to this contradiction, it was proposed that large thermal power equipment be imported from the United States and that the composition of energy resources of the Japanese electric power industry be enhanced. Before this major decision was made, the well-known Japanese expert Matsunaga Yasuzaemon not only had conducted a long-term investigative study and comparative analysis at the Central Research Institute of Electrical Power Industry which he operated, but he also personally made an investigative trip to the United States and at the end conducted a feasibility demonstration from the technical and economic point of view. Based on irrefutable materials and data, he concluded that not only would importing large thermal power equipment from the United States to build gas-fired thermal power plants take less time than building hydropower stations, but both the construction cost and power production cost would be lower, thereby rationally persuading those who held other views. This policy decision played a decisive role in guaranteeing the supply of electric power necessary to the rapid growth of Japan's economy.

3. Effectively preparing for assembly at home. Today, technology becomes obsolete at a much faster tempo. If it is not immediately put into production and use, advanced technology may soon become outdated and lose the value for which it was imported. Therefore, Japanese monopoly capital takes pre-import preparation seriously. For instance, the Toyo Rayon Company began negotiations in 1953 on the prospective import of polyester fiber production technology developed by the Empire Chemical Company in Great Britain. At the same time, the Japanese firm also began research on the production technology of polypropylene. When an agreement appeared imminent in 1956, it purchased land in Mishima for the site of the new plant. In 1957, construction of the plant began as soon as the contract for technology import was signed and in the following year it began production, sale and export.

C. In order to maximize economic results, Japan generally adhered to the following principles when organizing technology imports.

1. Let the easy precede the difficult, gradually increasing complexity. Following the end of the war when Japan was short in foreign exchange and the gap in technological capability was considerable, the pattern of import by

taking the easier ones first, taking short steps but moving fast, proceeding in an orderly, step by step manner but also speeding up accumulation, was both practical and effective. In the 1950's, Japan's technology imports mainly consisted of machinery equipment, blueprints, simple technological information, some technical know-how, recruiting foreign technicians and low-grade technical items. This type of technology was not only easy to master but was also inexpensive, averaging from US\$30,000 to US\$60,000 per item. But very quickly they increased productivity, improved the quality of products and expanded the scope of export. In the 1960's when Japanese enterprises achieved a definite accumulation in both capital and technology, they began to import new technological items that were larger in scale and more complex, each costing an average of US\$150,000 to US\$250,000, and day by day the imported items were swinging toward the high-grade categories. In the late 1960's and early 1970's, the emphasis gradually shifted toward electronics and other highly advanced technology, each item costing almost 10 times that of the early 1950's.

2. Selectively adopting the strong points of everyone and assembling the best in the world. Generally speaking, products from an imported technology that has already been in the market are usually less competitive. However, because Japan has been good at adopting the strong points of others and bringing advanced technology in the world into their own hands, they have even managed to put the exporters of individual technological items in a relatively disadvantageous position. The most typical example is the technology imports of Japan's steel industry, which has synthesized almost all advanced technology in steel industry in the world.

3. Combining "import" with "innovation" while aiming at innovation. The Japanese believe that the ultimate goal of their technology imports is to inherit what has been achieved, and on the basis of these achievements they keep on climbing until they reach the "summit" of their unique modern technology system. To assimilate and develop what has been imported, Japan often spends several times or even 10 times the import cost. In commenting on this form of import, a Japanese scholar said that although Japan will take in anything, "what they produce is uniquely Japanese." For instance, on the basis of imported technology, Sony Corporation has brought 16 new products to the world including the market-sweeping mini-television, desk computer, Betamax video recorder, among which the technology in color television is most representative. On the basis of chromatron it imported from the United States in 1962, after tackling key problems for 6 years, in 1968 it successfully developed the Trinitron, which is currently placed next to Edison's phonograph in the United States as an exhibit of historical importance.

Japan is particularly good at transforming what it imports into composite technology. The most typical example is the Betamax video recorder for home use. The video recorder is actually nothing more than the application of semi-transistor integrated circuits on video recorders. As early as 1956, Ampex Corporation in the United States successfully developed and manufactured the magnetic video tape recorder for professional use, but it was no simple matter to develop the heavy and expensive recorder into a portable one for home use. Around 1970, Japan, the United States and Europe all started to

develop it but finally in 1976 it was Japan that succeeded, thereby enabling it to monopolize over 90 percent of the world market for this product.

4. Providing for rainy days in a bid for success. For incomplete strategic realms of technology which are short of accumulation of funds and technology and which for the time being cannot be independently developed due to the lack of capability, Japan's policy has been: neither let slip an opportunity to import nor expend energy. It would accumulate knowledge through imports and wait for the opportunity to act. Take for example the case of atomic power generation technology which was undoubtedly very "good news" to energy- and resource-deficient Japan. In the mid-1950's Japan knew that this could not be commercialized entirely by one country, but she would not forfeit the opportunity to import it either. As early as 1957, a relatively more advanced reactor--the modified gas-cooled reactor--was introduced from Great Britain. In December 1959 the first experimental nuclear generator was built in Tokaimura. But after that no newer reactors were imported. With this technology import it accumulated knowledge and experience in atomic power generation. Consequently, when General Electric Company in 1964 won the bidding and right to build its light water reactor in the Oyster Creek Power Plant at a construction cost of 0.405 cents per kilowatt-hour, which was much cheaper than that of a gas-fired thermal power plant, Japan was immediately able to import this commercialized type of reactor in May 1966. Since then, nuclear power plants have developed rapidly in Japan. As a result, Japan entered the age of nuclear energy shoulder-to-shoulder with the United States and other advanced European countries.

5. Storing up both the "soft" and the "hard" while putting the emphasis on the "soft." If we regard the purchase of the rights to use patented items, blueprints, technical know-how, laboratory techniques and other pure technology imports as "soft imports," and that of advanced equipment as "hard imports," then the Japanese policy in dealing with the two has been "storing up both the soft and the hard while putting the emphasis on the soft." Moreover, even in cases of "hard imports," Japan would try its best to obtain the blueprints along with the equipment. Particularly when in the 1960's Japan entered the last phase of its rapid economic growth and had already attained a definite technical foundation and the capability to manufacture equipment, even stronger emphasis was put on "soft imports" in technology imports. Importation of high-level imported technology of incomplete laboratory technology and other high-grade technology increased daily. An example is the technology of the rotary engine introduced from the Federal Republic of Germany by Toyo Kogyo Company in 1960 which no one had ever been able to put into mass production. In order to solve the technical problem of "vibrational wear marks" in the inner side of the engine casing, the company assembled a technical task force of 47 people averaging 25 years of age to form the "rotary engine research department." In May 1967, after 8 years, they finally succeeded in manufacturing an automobile equipped with a rotary engine. This engine which is low in vibration, low in noise, economical in parts, and powerful has played an important role in Japan's development of lightweight compact cars and in winning acclaim as the world's "automobile kingdom". This form of technology imports has the advantage of saving a lot of foreign exchange, benefiting the training of qualified persons and

providing them the opportunity to master the world's most advanced technology in a relatively short time. Moreover, they may even re-sell technology and "use exports to support imports." For example, Furukawa Chemical Company imported the unfinished technology of medium pressure polyethelene from Indiana Standard Comapny in the United States. They followed up on its development and later resold it to the original company.

D. Combining the import of advanced equipment with reverse engineering is an important means to master advanced foreign technology and products, constantly innovate and establish one's own distinctive technological system.

What is referred to as reverse engineering involves comprehensive, systematic and in-depth analysis and study on advanced foreign products. It conducts destructive analytical studies on as wide a variety of the same kind of product as possible; carries out systematic analysis of a product's structure, materials, technology and packaging; and makes use of every available scientific means of testing and analysis to achieve an in-depth understanding of its internal details. Through reverse engineering, Japan has not only rapidly mastered advanced foreign technology as well as a series of technology and products which have good marketing prospects and which are favorable to the "base the nation on trade" strategy, it has also been able to constantly innovate on the basis of assimilating advanced technology and form a technological system for mass production which is uniquely Japanese. Japan's practice has shown that reverse engineering can yield enormous economic results. For instance, in order to develop motorcycles, the founder of Honda Company of Japan, Honda Soichiro, personally went abroad to select and purchase good quality motorcycles and brought them back to Japan for reverse engineering research. The company studied more than 500 kinds of motorcyces this way, synthesized all their strong points and successfully developed its own motorcycles which have been popular around the world and have monopolized the international market. In the light of Japan's experience, in order to do well in reverse engineering research, the policy of importing technology solely for use must be avoided; reverse engineering should be given sufficient attention as the key substance of applied research; the level of testing, analysis, computation techniques and equipment capability must be raised to initiate favorable conditions for the development of reverse engineering research.

E. When importing production technology, advanced management and administrative techniques must also be vigorously introduced.

Japan's technical specialists believe that so-called advanced technology does not merely consist of advanced production technology but also advanced management and administrative techniques. They regard business management as part of the study of engineering or technology. Practice has shown that large-scale modern production and major engineering projects would go nowhere without modern management techniques and management measures. In this regard, Japan has paid dearly for this lesson. In the early 1950's, Japan concerned itself mainly with the import of advanced technology and equipment from the United States but paid little attention to management techniques. Most of its enterprises were managed in very much the same way as they were before the war. As a result, even though advanced equipment had been imported, the

quality of products, productivity and cost all fell behind that of the United States. In the late 1950's the Japanese learned from the experience and introduced from the United States and Europe a series of effective management techniques such as systems engineering analysis, input-output analysis, quality control, zero-defect planning, value analysis and so forth. The introduction of these management techniques enhanced the planning, balance and coordination of enterprise production, thereby enabling even more rational use of human, capital and material resources, increasing productivity, reducing production costs, improving product quality and enhancing product reputation.

Similar to the import of production technology, Japan did not stop at imitating and copying when management techniques were introduced but strongly emphasized their development and innovation in combination with actual conditions. For instance, after assimilating and improving the statistical quality control technique imported from the United States, they created a unique, comprehensive quality control system, thereby developing quality control from simple statistical supervision of finished products to implementation of the "quality first" principle, from a product's design and trial manufacturing to production, and from material preparation, processing and production, transportation and packaging to post-sale services, constituting a cyclical feedback system of production quality which included "suggestion feedback" on product quality from consumers.

Practice has demonstrated that importing management techniques is less expensive and has quicker results than importing production technology. Advanced management techniques and advanced production technology are like the two wheels of the same cart of advanced technology, neither one of which is dispensable. Only by making progress in both can the best be brought out in each other.

III. Major Lessons from Japan's Technology Imports

A. Excessive reliance on importation has a negative impact on the development of basic technology.

Postwar Japan actively introduced advanced technology from abroad which promoted rapid economic growth and modernization. Certain practices in Japan's technology imports are generally significant as a source of reference and they should be affirmed. However, owing to Japan's excessive dependence on technology imports, it also formed a force of habit and tendency to neglect basic research. Even though many farsighted scholars have repeatedly warned against the danger such tendency entails, and even though this warning has indeed raised the concern of Japan's monopoly capital and its government, the same Japanese monopoly capital which has benefitted from technology imports and which is governed by capitalist laws of competition, always consciously or unconsciously places its hope on developing technology imports in order to defeat its opponents, thereby compromising the quality of its research system and causing it to lack the vitality, pressure and strength to develop basic technology. By studying the number of patent registrations, volume of technological transactions, volume of added value, export volume of technology-intensive products, input volume of research on exploiting resources and research on developing achievements, and by comparing them with

those of other countries, Japan's Science and Technology Agency did a comprehensive analysis and arrived at some composite indexes which show the relative technological creative capabilities of various countries. It was shown that in the first half of the 1970's the abilities of the Federal Republic of Germany, France, Great Britain and Japan were respectively 37.6, 22.2, 19.3 and 31.3 percent of that of the United States.¹ Japan was below Germany and not quite one-third that of the United States. If the capability in theoretical scientific research and the development of basic technology were compared alone, Japan might have fared even worse. As of the first half of 1980, the United States had 113 Nobel prize winners in the natural sciences, Great Britain 60, West Germany 50, France 22; Japan had only 3 and ranked 13th in the world.² It is undoubtedly a restraining factor on Japan's ability to develop science and technology creatively and to further develop its national economy.

B. A certain degree of anarchy in technology imports results in considerable waste of foreign exchange.

Even though the Japanese government has striven to conduct technology imports in a planned manner through economic legislation and the use of various economic levers and administrative guidance, because of capitalist laws of competition there is no way to resolve the contradiction between planned corporate production and anarchic social production in a capitalist society. Particularly after 1968 when Japan began to "liberalize" technology imports, every enterprise looked upon technology imports as the weapon for competition and competed in imports. Consequently there was rather serious duplication in the technology imported and huge amounts of foreign exchange were wasted. In 1969, an average of four companies simultaneously imported the same technology; this was most striking in the electrical industry in which an average of 5.3 companies imported the same technology at the same time. Consequently, of the total number of technological items imported, the proportion of items that had never been imported became ever smaller. It was 45.5 percent in 1965 and dropped to 26.3 percent in 1970.

C. To a certain extent, imported technology competed with indigenous technology, which impeded its development and sophistication.

The "Foreign investment law" promulgated by the Japanese government originally strictly limited the import of technology that would impede the development of indigenous technology. However, along with the growth of Japan's technological power, the government gradually eased those restrictions, thereby causing the competition between imported and indigenous technology to intensify. According to a survey conducted by the Promotion Bureau of the Science and Technology Agency of the Japanese government, of all the technological items that were approved for import, throughout the years the proportion of those that were also available in indigenous form increased day by day. The proportions in the 5 years between 1966 and 1970 were 44.2, 55.8, 68.5, 71.8 and 68.8 percent respectively. In reality, Japan was totally capable of resolving this type of technology domestically.

FOOTNOTES

1. Nakamura Seiji, "Sengo Nihon No Gijutsu Kakushin" [Technology Reform in Postwar Japan], p 194.
2. KAGAKU ASAHI [SCIENTIFIC RISING SUN] 1980, No 5, pp 68-72.

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HONG KONG ECONOMIC TRENDS

CHANGE IN HONG KONG'S INDUSTRIAL STRUCTURE REPORTED

Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 2 Feb 85 p 4

[Article by Zheng Deliang (1974 1124 0225): "A Further Change in Hong Kong's Industrial Structure"]

[Text] After continuous improvements in per capita total output value, there has been an important change in the industrial structure of Hong Kong's urban economy. The general tendency following increases in productivity is for the agricultural sector to drop continuously while there is a corresponding rise in the industrial and service sectors. Nevertheless, in the end Hong Kong is an "island" type of open industrial and commercial city and long-term colonial rule has made a deep impression on its urban economic development. Therefore, Hong Kong's industrial structure exhibits certain characteristics.

Since the 1980's, Hong Kong has experienced short-term economic fluctuations while nonetheless maintaining a rather high rate of increase overall in total output value. An average increase rate of approximately 7.9 percent has been maintained (deducting price inflation). It is expected that it will be easy to achieve an 8 percent economic growth rate if the momentum of the 1984 increases in export trade continues. Recent estimates made by the Huifeng Bank say that Hong Kong will return to a double-digit growth rate in 1985, based on last year's figures. Four new features have appeared in the course of sustained changes in Hong Kong's industrial structure since the late 1970's.

1. Total output value of the tertiary industry sector continued to rise while that of the secondary industry sector fell swiftly. In 1982, tertiary industry rose to 68.6 percent, up from 61.6 percent in 1979, while the secondary industry proportion fell from 34 to 30.5 percent during the same period, of which manufacturing fell from 35 percent to 21.8 percent. Primary industries only accounted for 0.7 percent, giving the tertiary industry sector overwhelming superiority in the entire urban economic structure of Hong Kong.

2. The focus of the tertiary sector was shifted to financial insurance, housing property and commercial services. In 1970, these three areas only accounted for 24 percent of the tertiary industry figure. In 1979, they rose to 31 percent, and in 1982, to 35 percent. Conversely, wholesale and retail sales, entertainment and tourism dropped from 34 to 28.4 percent. At the same time, inland transit business expansion and exports have tended to rise,

spurred on by transport, storage and telecommunications. Thus, a new feature in the industrial structure of the 1980's is the rapidly growing tertiary industries, centered on the financial, housing properties, and related commercial services.

3. With respect to the secondary industries, growth in construction was second only to the financial, housing properties, and commercial services. This sector now accounts for 7.3 percent of Hong Kong's total output value, equal to the developed tourism industry, while in 1970 it only accounted for 3.3 percent. There is a clear relative falling trend seen in the most important industrial goods sector of Hong Kong's economy, regardless of whether we consider the entire industrial structure or the proportions within the secondary sector. Nevertheless, the electronics and watch-making industries are advancing at a higher speed than ever before. In 1983, the value of Hong Kong's electronics goods exports was 23 percent of the total, versus 12.3 and 19.1 percent in the years 1976 and 1981, respectively. In this time, many observers have predicted that in the near future, because of the rapid development of the computer and advanced electronics goods industries, the value of electronics exports may move from second to first place of total export value, thereby displacing the traditional clothing sector.

4. With respect to the insignificant primary industry sector, the value of the fisheries and sideline and agricultural products industries doubled following the swift decline of agriculture. Imports currently supply practically all of Hong Kong's food. Nevertheless, each year, the 1.5 percent of the population who are farmers supply 38 percent of the fresh vegetables, 55 percent of the poultry, 21 percent of the fresh pork, and 15 percent of the freshwater fish, while the 0.5 percent of the population who are fishermen supply more than 90 percent of the saltwater fish. Together with common agricultural crops, the 1983 total output value was more than HK\$1.3 billion. In addition, Hong Kong's flowers and plants, fruit and ornamental tropical fish have also rapidly developed.

It is estimated that in the transitional stage from now until 1977, the pace will quicken on the reform of China's urban economic system. Economic relationships between Hong Kong and the mainland, particularly economic and technological cooperation relationships between Hong Kong and the open coastal cities, will grow day by day. Such mutually motivating joint development trends will have a profound influence on Hong Kong's tertiary industries as well as on the entire industrial structure.

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HONG KONG ECONOMIC TRENDS

CHINESE CHAMBER OF COMMERCE SPEAKERS TALK ABOUT ECONOMY

Hong Kong TA KUNG PAO in Chinese 8 Jan 85 p 5

[Text] Huo Yingdong, chairman of the Hong Kong Chinese Chamber of Commerce, pointed out at yesterday's 1985 Industry and Commerce Discussion of the chamber after taking a wait and see attitude, pondering and deliberating in 1984, the people of Hong Kong discovered that Hong Kong is still full of life and energy. The year's overall economic growth was steady and the advances made people satisfied with the direction of development. In the new year, although we still face peripheral economic recovery problems like the pressures of trade protectionism, low domestic consumption and a deficit, nevertheless the stage of world economic recession and an uncertain future for Hong Kong have passed. Hong Kong's industrial and commercial worlds should have more faith in facing the future.

Huo Yingdong said that in the past year the Chinese Chamber of Commerce discovered from domestic and overseas contacts that there is a common impression that is quite optimistic and fully confident about maintaining Hong Kong as a free port and international financial and trade center and maintaining prosperity and stability. Therefore, he feels that Hong Kong's industrial and commercial worlds have no reason to lose heart or confidence.

Four speakers invited to attend the discussion were: Wang Guangying, chairman of the board of the Everbright Industry Co.; Li Xiao Baozhen, Jian Fuyi and Li Bailian [7812 4102 6937], assistant officers, Office of Industry (Industry, Technology and Product Standards); Jian Fuyi is a special investigator, senior partner and Chinese Chamber of Commerce Board Member; and Hu Baixi, an attorney. They spoke about the influence of China's economic reform on Hong Kong's industry and commerce, the application of technology to industry, whether real estate and the construction industry would rise again, and futures trading, respectively. The Chinese Chamber of Commerce's chief executive officer, board, and 300 members attended.

Huo Yingdong first took stock of the year 1984 in terms of Hong Kong's success with import and export trade, industry, investment, finance, real estate and construction, tourism, and domestic consumption.

Huo feels that the economic leaps that will be brought about by the reform of China's economic system will give Hong Kong a tremendous role in domestic

trade that will increase daily. It is certain that this tendency will be increasingly advantageous to Hong Kong.

Wang Guangying predicted that if China sustains the policies of opening to the outside world and economic reform, Hong Kong would not only benefit but to a degree greater than that of the past five years. The Chinese people's understanding and implementation of the urban economic reform will provide a vast area for investment and cooperation between the two places. Wang feels that the everyday goods, semi-finished products and goods and materials needed for production that are sent from Hong Kong to the inland must increase and expand, the volumes rapidly rise and expand because of continuous improvements in the lives of the people inland, and further developments in Hong Kong's industry and commerce to meet the enlarged inland demands. He believes that Hong Kong's businessmen can plan for profits and realize them if they can comply with the demands of the situation, praise strengths and avoid weaknesses, steadily discuss appropriate investments, introduce advanced equipment and technology, utilize the inland's abundant resources to start up burgeoning industries, develop the high precision and crucial technology needed by the inland and fill in some of the inland's shortcomings and gaps.

He also said that with respect to industrial production, mainland China in the future might invite some talented technical experts or experienced managers from Hong Kong to be consultants or assist with preparation for China's economic construction. Just as with product exports, this can also benefit Hong Kong quite a bit.

Li Xiao Baozhan reminded Hong Kong's factory owners not to import science and technology blindly. They must take into account the actual value of the science and technology which is imported, for Hong Kong cannot invest much money in basic or grassroots level research and development like the developed countries can. They must also stress science and technology that can really be applied to manufacturing better quality products, improving production or solving particular technical questions so that industrialists can more effectively control and utilize resources.

Jian Fuyi said that various indicators show a recovery in Hong Kong's real estate and construction industries. Developers believe that early 1985 will be the consolidation period for Hong Kong's real estate market. The purchase and rental prices for Haohua residences have increased 10 to 15 percent since [the Sino-British Agreement on the Future of Hong Kong] was signed. This indicates the confidence of Hong Kong and foreign backbone elements. There is a steady supply and demand for industrial building space. It is expected that scrambling for low rent and low prices will not recur. The percentage of vacant industrial space has fallen less than 10 percent. The Hong Kong government began various projects which, in coordination with public engineering works that will develop in the future, will be beneficial to the construction industry. He feels that real estate and the construction industries are entering a relatively stable period, setting the stage for an overall recovery some other time.

Hu Baixi believes that Hong Kong has the conditions to become a successful futures market. Nevertheless a stumbling block is that Hong Kong is not a commodity producer. Hong Kong's futures market will be very lively if China supports Hong Kong in spirit and substance, for example by selling some futures here. This will reduce interference by outside regulations and restrictions, meaning a surely higher position for Hong Kong's futures market on the international scene.

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HONG KONG ECONOMIC TRENDS

INDEPENDENT BANK OF CHINA INVESTMENTS POSSIBLE

Hong Kong MING PAO in Chinese 11 Jan 85 p 1

[Text] Jiang Wengui [5592 2429 2710], manager of the Hong Kong Administrative Office of the Bank of China [BOC] and Vice Chairman of the Board of the BOC, said yesterday that one of the BOC Group's major tasks this year is to greatly assist Hong Kong's industrial and commercial world invest in Hong Kong and the mainland. The BOC itself can make independent investments but has no specific plans at this time.

As always, Mr. Jiang refused to reveal any monetary sums lent by the BOC to local industries and commercial units. He would only say that the rate was 30 percent higher in 1984 than 1983. The bank hopes to maintain the same growth rate in 1985, although a 50 percent increase would be preferable.

Jiang Wengui said that each individual business project must be considered before determining whether a loan or investment from the BOC would offer preferential treatment to Hong Kong's industrial and commercial worlds. He later said that the BOC's interest rate for these loans would be a bit better than the prime rate.

After his speech last night at a dinner meeting of the Taiping Mountain and Western Lions Clubs, Jiang said that quite a while ago the BOC formed an investment company with a certain number of well-known Hong Kong commercial people and other Chinese investment groups. Preparations are still underway. Regarding the company's formal establishment, he gave what he termed a "slippery" schedule. The company could be set up this month or next.

He said that the beginning of everything is always the most difficult part. Once the company is set up, work can proceed rather quickly. At this time the relevant legal procedures have been already settled. The company cannot open for business until problems involving shares and shareholders have been solved. Shares can be announced only after the company has gone public. In sum, the plan to establish this company cannot be cancelled. The necessary registration fees have been paid, possibly at a sum of 500 million yuan.

In his dinner speech, Jiang mentioned that some people say Hong Kong's economy cannot have too many economic ties with mainland China, lest Hong Kong's economy lose its independence out of being overly dependent on the

mainland. Furthermore, Hong Kong's economy is more advanced than the mainland's so if Hong Kong is to depend on inland markets, the quality of its goods will drop.

Mr. Jiang said that this is not the whole story because economic relations between the two are in the main decided by entirely economic factors in addition to political considerations. Taking trade for example, goods can flow to wherever markets are. Goods will not be marketable if they are low in quality and high in price. The United States is Hong Kong's largest export market. This is due largely to economic factors and not any political considerations. Why don't people fear that Hong Kong's trade is too dependent on the United States and so will lose its independent nature?

Turning to investments, funds flow to wherever the investment environment is good. Otherwise no matter how you glowingly present the terms, people will not invest there.

At present the whole world is watching China's economic development. Everyone is interested in China's vast markets. Hong Kong is a waterfront pavilion. It has extremely favorable conditions to strengthen its economic ties with the inland. This can promote Hong Kong's economic development and industrial and commercial prosperity. Provided that the inland investment environment can allow Hong Kong's investors to plan for profits, that inland markets are suitable for selling Hong Kong's goods, and that inland raw materials and products are competitive in the Hong Kong market, then Hong Kong's economic ties with the mainland will strengthen and no one will be able to prevent this.

Some say that China's open door policy and allowing foreigners to invest independently or in cooperation with China is no longer socialism. They say that it is the same as with Hong Kong, having one country and two systems. This is a total misunderstanding.

Jiang said that China presently perseveres in developing various economic forms guided by the socialist economic force of ownership by all the people (i.e., state-run enterprises). At the same time China is developing collective and individual economies as essential and advantageous complements to the socialist economy, subordinate to the socialist economy.

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HONG KONG ECONOMIC TRENDS

NEW FOREIGN INVESTMENT IN HONG KONG REPORTED

Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 2 Feb 85 p 4

[Article: "More Than HK\$11.4 Billion Invested by 507 Foreign Investors in Hong Kong"]

[Text] The number of foreign investors coming to Hong Kong continues to grow. According to data published by the Hong Kong Office of Registration, 215 new foreign investment companies were registered in Hong Kong in 1984. In addition, according to the latest figures provided by the Hong Kong Office of Industry, 507 foreign investors invested HK\$11.46 billion in the year ending 31 December 1984.

Many Medium- and Small-Size Japanese and American Companies Invest

Since the first of the year, the Japanese Nisho Food Products Co was the first to jump into the investment waters. The company signed an agreement with the Industrial Park Co to rent the Dapu Branch of the Industrial Park and build a fast-food noodle manufacturing plant. Next, two American electronics works announced that they would open for business in Hong Kong. A general estimate is that foreign investment in Hong Kong will increase this year, mainly led by the Japanese and the Americans. There will be a new wave of more medium- and small-size companies coming to Hong Kong to invest.

Financial Investments Flourishing Daily

Foreign investment in other sectors is also flourishing day by day. Finance is in the forefront. In addition to the four Japanese and one Dutch investment banks that applied to open branches in Hong Kong in the first three quarters of last year, the following financial organizations came to Hong Kong one after the other to invest following the initialing of the Sino-British [Declaration on the Future of Hong Kong]: At the end of October last year the American [Stevens] Group and the Indonesian Lin Shaoling [2651 4801 5328] clan announced that they would purchase 99.73 percent of the stock of the Chinese Bank of Hong Kong for HK\$337 million; the British Lloyds Group, which previously purchased 35 percent of the stock of Hong Kong's Bao Yuan Investment Co, Ltd, would increase its holdings to 75 percent; and the French Far Eastern Bank would buy seats on the Far Eastern and Hong Kong stock brokerage markets, and were preparing to deal in stocks in Hong Kong.

With respect to the industrial and commercial sectors, the following foreign companies have recently come to invest in Hong Kong: Nihon Denki of Japan and [AKF] of the FRG set up separate wholly owned subsidiaries at the end of November last year. These subsidiaries will be responsible for the Southeast Asian and China business affairs of the parent companies. A joint investment of HK\$20 million was put up to build an airplane tire recapping plant in Hong Kong by the Bridgestone Co of Japan, the Thompson Airplane Co of the United States, and the Airplane Engineering Co of Hong Kong.

Increased Investment by Local British Financial Groups

At present, investments are growing rather liberally since the reorganization of local British financial groups. Cathay Airlines has decided to invest HK\$400 million to buy more new planes. China Power Co is planning to spend HK\$2 billion to build a huge electricity transformer network and transport the power to Hong Kong, in addition to its investment of HK\$200 million to build the Guangdong Nuclear Plant. Hong Kong's International Container Port Co Ltd announced that it would invest HK\$52 million to purchase new container loading equipment. The purchase will be the first phase of expansion of the Kuyong Container Port set for March 1987.

It was reported that some foreign financial groups are preparing long-range and large-scale investments in Hong Kong. Since Hong Kong's relationship with the mainland is growing on a daily basis, more foreign companies are setting up strongholds in Hong Kong. Opening the China market will be a new characteristic of Hong Kong's economic development in the future.

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HONG KONG ECONOMIC TRENDS

COMMERCIAL, RESIDENTIAL DEVELOPMENT AT TRAM TERMINAL PLANNED

Hong Kong TA KUNG BAO in Chinese 1 Feb 85 p 4

[Article by Jiang Guoyuan [1203 0948 0337]: "Wanchai 'Landlords' Have New Development Plan; Bao Yugang Discusses Kowloon Cargo's HK\$1.5 Billion Investment; Commercial and Residential Buildings To Be Built on Tram Terminal Site, Construction To Begin Next Year; Terminal Will Move, Service Will Not Change"]

[Text] Bao Yugang [0545 3768 0474], chairman of the board of Hong Kong's Kowloon Cargo Warehouse Co., Ltd, revealed in an interview with this reporter that Kowloon Cargo is prepared to invest more than HK\$1.5 billion to develop a huge construction plan. The tram terminal in Hong Kong Island's eastern district will be the site of the project. Work is expected to begin next year. The entire project will take 3 years.

Bao Yugang emphasized that Kowloon Cargo will finance the plan independently. Commercial and residential space will be developed on this 112,436 sq ft of land. According to current real estate market estimates, the land is worth at least 500 million yuan.

Kowloon Cargo's profits have recently grown year by year. In 1983 profits were 424.8 million yuan, a 4.25-fold increase since 1977, when profits were 77 million yuan. The company decided to make a major investment with these sustained profits.

In view of the trend to develop the construction industry, it was a wise decision to develop commercial and residential buildings in Wanchai because once the question of the future of Hong Kong is fully resolved, industry and commerce will develop steadily. Foreign investment in Hong Kong will increase proportionately, as will the establishment of offices, meaning a greater demand for building space. A saturation point has been reached for office buildings in the central district. It is estimated that when this construction plan is completed, the site may become a hot piece of commercial space.

According to the estimates of people in the market, the commercial portion of this plan will no doubt be taken seriously and the residential space portion will also be well received. According to preliminary results in the "1985 Construction Industry Critique" released by the Hong Kong Government 2 days ago, it is clear that there will be a greater increase than before in the market demand for large luxury residences as well as medium- and small-size residences.

People are worried about the trams' preservation and abandonment. Once the tram terminal turns into a construction development site, does this suggest that tram service, which is more than 80 years old, will become obsolete?

Bao Yugang indicated that it would be impossible for the development plan at the tram terminal site to reduce or terminate tram service. He revealed that Kowloon Cargo is now searching for a new site to move the terminal. Tram service will be maintained. Trams and the Star Ferry are major sources of Kowloon Cargo's income from public transportation. At present, trams play a rather important role in Hong Kong island's transportation system. Some 400,000 people are carried by trams each day.

The tram terminal is located in the eastern district of Hong Kong Island. It is bounded by Russel, Matheson, and Sharp streets, and Canal E. Road.

At present the tram terminal is mainly used as a repair plant and as a parking lot for all tram cars at night. Each day, approximately 20 cars are under repair at the Sharp St plant. Each night, after being taken out of service, all 163 tram cars are parked in the tram lot.

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NATIONAL POLICY AND ISSUES

YU GUANGYUAN DISCUSSES NEED, DIRECTIONS FOR ECONOMIC REFORM

Beijing ZHONGGUO SHEHUI KEXUE [SOCIAL SCIENCES IN CHINA] in Chinese No. 1, Jan 85 pp 53-68

[Article by Yu Guangyuan [0060 0342 6678], adviser to the Chinese Academy of Social Sciences: "Viewing Reform during the Stage of Socialist Development from World and Chinese History"]

[Text] This article states the belief that reform during the stage of socialist development, which commences with reform of the organizational structure of the socialist economy, is a common phenomenon in all socialist countries and is part of the unfolding of world history. Neither Marx, Engels nor Lenin ever formulated models for the economic, political and other organizational structures of socialism; the first to do so was the Soviet Union under Stalin. One of Stalin's major errors was to view the socialist economic structure established in one country during one period as fundamental and to demand that all socialist countries follow that model. The author of this article points out that, in terms of world history, reform of the economic structure constitutes another great change that socialist countries apply to productive relationships after having effected socialist transformation, the latter of which involves a change from private ownership of the means of production. The primary objective of the current reform is to eliminate the elements in the economic structure established by the Soviet Union in the 1930s that impede growth in social production, to replace those elements with productive relationships that promote expansion of each country's productive forces and thus to give full play to the superiority of the socialist system. The author also provides valuable ideas concerning the reform of the socialist economic structure, especially urban reform, that is just getting under way in China.

We are engaged in a battle to build China into a strong and modernized socialist country. Reform is the key to achieving this objective and includes changes in productive relationships, which is what the reform of the socialist economic structure and the readjustment of policies concerning

nonsocialist economic elements are all about. Closely related to the reform of productive relationships are corresponding changes in the political and legal superstructures and in social ideologies. Some other things, such as scientific and educational work, cannot easily be incorporated into the superstructure but do present problems for reform.

These changes differ from socialist revolution, do not involve class struggle, in which one class overthrows another, but rather represent reform during the stage of socialist development.

Today I should like to discuss the matter of "viewing reform during the stage of socialist development from world and Chinese history."

This Type of Reform Is a Phenomenon of World History

Reform during the stage of socialist development, which commences with reform of the organizational structure of the socialist economy, appears as part of the unfolding of world history. Naturally, this type of reform could not have occurred when there were no socialist countries in the world, nor could it have occurred during the first transitional stage from capitalism to communism following seizure of power by the proletariat. And such a reform did not immediately appear even as the earliest socialist country entered the stage of socialist development. Rather, this reform makes its entrance in world history only after a certain period of socialist development has elapsed, when developmental contradictions become apparent. By now, virtually every socialist country is discussing this reform, and some countries are putting it into practice. Thus this reform is not unique to any one country but is a common phenomenon in all socialist countries and a part of the unfolding of world history.

A Brief Review of World History from Marx's Times to Lenin's

Marx and Lenin called themselves scientific socialists, opposed the philosophical and historical views analytically employed by utopian socialists, refused to depict future socialism in detail or in fantastic terms, devoted themselves instead to a profound analysis and critique of the most advanced form of social production at that time, capitalism, and thus discovered that the inherent contradictions in capitalism would grow and lead to the complete destruction of that system, that the system would be replaced by a more advanced form of human social production, communism, and that the proletariat, which was entrusted with the historic mission of burying capitalism, should use revolution to accelerate the development of world history.

Thus there exists no Marxist-Engelian model for socialism. In terms of these two men's ideological methodology, such a model could not exist and, in fact, does not exist. While studying the historical fate of capitalism, Marx and Engels merely noted some of the most basic features of future communism and did nothing more, an analytical approach that is revealed in the following examples. The slogan "from each according to his ability, to

each according to his needs," which has become emblazoned on the banner of communism, was used by Marx only once--in his "Critique of the Gotha Program," a letter he wrote and never intended to publish. One cannot find a second reference to the phrase in any of the other known works by either Marx or Engels. And the idea that communism is divided into earlier and higher stages was also included in the "Critique," in order to refute Lassalle, and was never elaborated anywhere else.

It should be stated that these examples are of only secondary importance to the study of Marx's and Engels' analytical approaches, which point is clearly evident throughout all of their works.

Lenin, on the other hand, belonged to a different period. By the end of the nineteenth century, capitalism had developed into monopoly capitalism, and the struggle between the powers to carve up the globe was about to explode into world war. By that time, conditions throughout the world and in some countries, especially Russia, had matured to the point that the proletariat could seize power in some places. Under these historical conditions, Lenin had to devote more concrete consideration to problems related to the socio-economic system following proletarian seizure of power.

It was Marx who advanced the idea that a revolutionary period of change exists in the first stage of the transition from capitalism to communism, but he did not provide any elaboration. The thesis, which also originated in the "Critique of the Gotha Program," was raised in order to criticize the erroneous views of the drafters of the program concerning the issue of the state and to introduce the following line in the "Critique," which was that during this period of revolutionary change, proletarian dictatorship would be effected as a political transition. Lenin was the first to pay attention to, elaborate and specify approaches to economic problems during the transition. It was he who stated that, economically, the transition period experiences a struggle between waxing socialism and waning capitalism; that the antagonism between capitalism and socialism must be taken into consideration during this historical period and approached in terms of the concrete historical conditions of the socialist nation, not abstractly; and that state capitalism--naturally, only that exercised under the dictatorship of the proletariat--should be permitted and used for socialist objectives. Lenin also described the attitude we should adopt toward the various economic elements that exist during the transition. Most of his expositions dealt exclusively with conditions obtaining after the Russian October Revolution but remain very valuable for many nations today.

Lenin did not survive the transition from capitalism to socialism, his early death prevented him from witnessing the period of socialist development, and his expositions dealt with the problems of his own historical times. Though many of his ideas remain very valuable today, we still cannot say that he provided any models for economic, political and other systems under socialism. For he, too, was a scientific socialist who refused to engage in empty, baseless fantasy.

The First Socialist Model Was Established by the Soviet Union under Stalin

The first socialist model was established after Lenin's death, by the Soviet Union under Stalin in the 1930s. There is no need to describe this model, as we all are very familiar with it, and scholars of various countries have written many books about it. Yet evaluation of the model is an important issue and is especially crucial for China. For many elements of the organizational structure of our economy were borrowed from that model, and thus we may not be able to clear up the problems related to the reform of our economic structure unless we make a scientific appraisal of that model. Nevertheless, some of the issues involved in this area are still considered taboo, which situation hinders theoretical examination of the issues relating to the reform of China's economic structure. I myself do not know very much about the model and its specifics and do not understand much of the historical debate about it, and China does not have much information and has not conducted much study on these problems. So I do not have any expertise to offer on the matter but hope that everyone will further study this period of history.

As for the struggle between Stalin and Bukharin, it seems to me that this period of history is especially important, because many aspects of the guiding ideology behind current economic reform in Eastern Europe are very similar to the views Bukharin expressed. A symposium on Bukharin's thought was held in Rome in 1980, and at this conference there was a panel entitled "Economic Reform in Eastern Europe and Bukharinism" and chaired by the Polish economist [Bulusi 1580 7627 2448]. It is said that [Bulusi] stated at the conference that economic reform in Eastern Europe emerged out of the experiences of each country in the region and were not copied out of Bukharin's works; rather, it was not until the reforms were implemented, based on actual conditions, that it was discovered that Eastern Europeans' ideas were very similar to those Bukharin expressed. I do not know very much about Bukharin's thought or the struggle between Bukharin and Stalin and thus dare not say anything about these matters. But I would like to raise one point, which is that at the time of the Stalin-Bukharin debate the Soviet Union was indeed surrounded by capitalism, and imperialist countries definitely had only one aim in mind, namely, to destroy the Soviet Union. That war actually did occur sometime later, when Hitler's Germany invaded the Soviet Union. Thus at the time of the debate the Soviet Union was preparing both economically and politically for war. It seems that this historical background ought to be taken into account when we study the struggle between Stalin and Bukharin.

One of Stalin's Major Mistakes Was To View the Socioeconomic Structure Established by One Country during One Period As Fundamental

Setting aside the question of evaluating the Stalinist model, it nevertheless now seems very clear that Stalin committed a major error. In socialist countries, socialist productive relationships naturally play a leading role and under certain historical conditions may become the only economic components remaining in those countries, with nonsocialist elements no longer

existing. Nevertheless, there are certain specific forms of socialist ownership. The socialist state economy established and perfected in the Soviet Union after the October Revolution represents one such form; the Soviet Union's collective farms are another form; the "three levels of ownership, with the team as the basis" in China's people's communes are still another; China's urban collective enterprises and county-run industry are another; and Yugoslavia's federated labor organizations are yet another. The systems with which socialist countries manage national economies are quite varied. For example, we can place full stress on command planning; or we can do completely without such planning, as Hungary does, and employ various economic levers to guide enterprises and all economic activity onto a planned path; or we can use various measures simultaneously. The questions relating to these numerous forms of socialist ownership and managerial systems revolve around whether or not these forms are suited to conditions in a given country at a given time and whether or not they best promote economic growth. These are matters of correctness or incorrectness, better or worse. As long as the basic system of socialism is not altered, we should view this variety as representing the different methods countries use to develop socialism. The question of support for or opposition to socialism is not at issue here.

We shall not attempt at this time to determine whether or not the socialist model established by the Soviet Union in the 1930s facilitated that country's economic development. Instead, we stress that this model represents merely one type of model. Yet Stalin did not feel this way. He demanded that all socialist countries copy this model, the one he built, or at least basically follow it; anything else, he thought, would not be socialism. This tendency was displayed in Soviet political and economic thought and starkly revealed in actual relations between parties and governments. Thus many problems, even serious ones, appeared in the international communist movement when Stalin was alive: Yugoslavia was expelled from the Bureau of Intelligence, and Tito was declared a traitor to the international communist movement--developments that were but the most important of the historical events that arose out of this issue.

In recent years, I have continually stressed that we must make a strict distinction between the concepts of the socialist economic system and of the organizational structure of the socialist economy. I believe that the socialist economic system represents the fundamental features of socialist productive relationships common to all socialist countries or maintained by a given socialist country throughout all of its developmental stages. As long as this socialist country exists and as long as it has not advanced from the lower to the higher stage of communism, this country's socialist economic system will not change. I believe that the formula for this system should read: Socialism equals public ownership of the means of production, plus the bracketed sum of distribution according to labor and socialist commodity production. Expressed arithmetically, this formula would read: Socialism = public ownership of the means of production + (distribution according to labor + socialist commodity production). This formula is derived from that provided by Lenin in a pamphlet written in May 1917, shortly

before the October Revolution, which stated that socialism means public ownership of the means of production and distribution according to labor. Public ownership of the means of production is a feature common to both the lower and higher stages of communism, whereas socialist commodity production and distribution according to labor are characteristic of the lower stage of communism. Summed together, these elements provide a definitive formulation of the basic characteristics of the lower stage of communism. The element of socialist commodity production was added as a result of conclusions derived through several decades of socialist development and through long-term discussion by Marxist economists.

The socialist economic system is basic to all socialist countries throughout the socialist stage and does not change. Yet improvements are possible. For example, socialist commodity production in the past was not included in but has now been added to this basic economic system. I believe this constitutes an improvement to the system.

This, in short, is what the socialist economic system is all about. The organizational structure of the socialist economy, on the other hand, is the concrete aggregation of the socialist productive relations that play a leading role in a given socialist country during a given period. This structure includes both the socialist economic system as well as many non-basic things that exist outside of that system, differs from that system, contains many unique features, is not a general thing but a special one and is concrete, not abstract.

Stalin confused these two concepts, thought non-basic things in the organizational structure of the socialist economy were essential to the socialist economic system and believed that to safeguard that system one had to uphold all those things included in the organizational structure established by the Soviet Union. This confusion must be considered a major mistake, and it seems that the effects of this erroneous ideology have not been entirely eradicated from the minds of some of our comrades.

The Proposal To Reform the Organizational Structure of the Socialist Economy

Reform of the organizational structure of the socialist economy was first proposed after World War II.

There have been 40 years of peace since the war. During this time, all sorts of contradictions have arisen and become very acute, conflicts have cropped up frequently and yet World War III has not occurred after all, and peace has been maintained. After the war, a number of socialist countries were established, each of which had its own experiences and most of which have advanced to the stage of socialist development. Each of these countries has discovered the crucial problem of establishing appropriate socialist-economic organizational structures that are based on local conditions and that promote better development of social productive forces. Meanwhile, people have increasingly come to recognize the problems associ-

ated with the Soviet model of the 1930s. Thus arose the issue of reforming the organizational structure of the socialist economy.

This issue was first raised in Eastern Europe, and it is not by accident that this region became the pioneer of such reform. It is up to historians to determine how we should analyze this phenomenon, but it may have been caused by both objective and subjective factors.

Yet could we not think of the matter this way? Due to white terror, many Eastern European Marxists could not operate under cover in their own countries and had to live in the Soviet Union for a long time. And because of linguistic similarity and geographical proximity, Eastern European Marxists came to understand actual economic and social conditions in the Soviet Union and the problems of the Stalinist model much better than Asian Marxists. Moreover, the social, economic and cultural levels of Eastern Europe prior to revolution were higher than those of Russia before the October Revolution. Thus after their revolutions Eastern Europeans had to develop their own socialist economies. Furthermore, Eastern Europe had a number of accomplished economists who had studied political-economic theory as well as actual conditions in their own countries and believed that their countries should implement their own types of structural reforms. Stalin, however, insisted that the Soviet model be followed, and many countries were forced to comply. Many Marxists disagreed, and Yugoslavia maintained more independence and freedom of action than did other Eastern European countries due to Tito's staunch stand and the important role played by Yugoslavian guerrillas in achieving revolutionary victory. Thus, although Yugoslavia was one of the more economically and culturally backward countries of the region, she became the leader in carrying out structural reform.

Thereafter, Hungary, at a particularly auspicious time, established an economic structural reform committee in 1964, her party central committee decided in 1966 to implement a full-scale reform beginning in January 1968 and thus she became the second country in Eastern Europe systematically to establish a new economic structure. On the other hand, Czechoslovakia's reforms were suppressed. The conditions surrounding these reforms in Eastern Europe are complex, the process has been tortuous and guiding ideologies are varied, yet the reforms are still continuing.

Such reform has always been discussed in the Soviet Union, as well, and at various times one experiment or another has been attempted and one policy and one measure or another has been adopted. And some reform has been achieved in that country, even though more complications have been involved and though related discussions have come under heavy attack or been subjected to other inappropriate measures.

Viewing the Necessity of Socialist-Economic Structural Reform in Terms of World History

Lenin stated that world victory for the socialist cause depends on the ability of socialist productivity to surpass that of capitalist countries. This has yet to be achieved.

There are many reasons for this, the primary one of which is the fact that many socialist countries were backward economically and culturally prior to revolution. Nevertheless, defects in the organizational structures of socialist economies also constitute an important factor.

In "Imperialism," Lenin stated that imperialism represents the moribund stage of capitalist development. Many comrades now doubt the correctness of this thesis, because capitalist countries developed very rapidly in the 1960s, continued to advance in the 1970s and 1980s and thus do not seem very moribund. I believe Lenin was right, however, for not only were the data and logic he employed correct, his thesis has also been confirmed in fact. World War I freed one-seventh of the world's total land area from the chains of imperialism, and many more socialist countries, including China, the world's most populous nation, escaped the imperialist realm after World War II. The decay of imperialism Lenin described in "Imperialism" does not imply that imperialist production cannot progress. Thus the history of imperialism following World War II does not demonstrate that imperialism is not moribund or that the eve of socialist revolution is not at hand.

Nevertheless, I think we ought to take note of the above viewpoint, because people throughout the world certainly do not cherish socialism as much as they did in the 1950s. And the imperialist world, while undergoing upheaval, has still remained quite stable. What caused this? Through concrete analysis, we can point to many factors, one of which would be the fact that there are shortcomings in the organizational structure of socialist economies, that we have not given full play to the superiority of the socialist economic system, that labor productivity has not risen fast enough and that the people's standard of living has not improved sufficiently.

In 1979, I accompanied some comrades on a visit to Japan. We arranged through our Japanese hosts to visit and have a meal at the homes of two worker families in Nagoya. The host at one of these homes was a member of the Japanese Socialist Party and a union-branch secretary in a Nagoya transport company. He stated very frankly that it was much more difficult to lead socialist workers' movements in the 1970s than it was in the 1950s and that one reason for this was that in the 1970s Japanese workers no longer cherished socialism as they had in the 1950s, because they knew that the socialist country to the north occupied and refused to return four Japanese islands, which issue affected Japanese nationalist sentiments, and that the socialist country to the west had not been run very well over the years, her economy had not improved and her people suffered hardship. By "the country to the west," of course, the Japanese mean our China. I believe these words warrant our careful attention. Socialist countries have not done very well

in some of their work and, in particular, have failed to give full play to the superiority of the socialist system. These facts definitely have greatly benefited capitalist countries.

I once had a conversation with an American Marxist, during which I stated that we were both Marxists and theoretical workers and that a Marxist's faith in socialism, namely, that socialism will inevitably replace capitalism and be victorious, is derived through scientific study of world history and is based on a considerable amount of factual evidence and very profound research. We are Marxists, I continued, because Marx was the first person to undertake this type of study, and the results he obtained have convinced many people like us. Thus our faith in socialism is very firm and will not increase just because one country is able to achieve smooth progress in her socialist cause during a certain period of time, nor will our faith decline just because a country encounters setbacks or defeat in her socialist cause. Our faith in socialism does not fluctuate like prices on the London Stock Exchange; otherwise, we would not be Marxists. We have accepted Marxism on the basis of scientific research. Yet the average worker in a capitalist country is not a scientist and has not studied history or political economy, so how can he fight for the victory of socialist revolution under the leadership of the Marxist party? And how can he become a socialist? Well, he has personally experienced capitalist society, lived through much hardship and is dissatisfied with that society. This is one aspect. There is yet another. He believes our propaganda, accepts our education and is convinced that the socialist society of the future will be much superior to capitalism. But now that there are socialist countries in the world, he is not content with the abstract socialism we publicize. He determines whether or not socialism is superior by looking at the actual conditions in socialist countries. If those conditions are truly very good, many people will come to cherish socialism; otherwise, they will doubt socialism. China's poor performance under "leftist" ideology over the last 20 years has had a bad effect on the thinking of Japanese workers. If people who engage in labor and other types of work in socialist countries wish to push world history forward, they must build socialism properly. And to build socialism properly, they must follow a basic Marxist principle and change the organizational structure of the socialist economy, so that that structure better develops productive forces, and render the socialist superstructure better able to consolidate and develop this economic structure. Naturally, reform of this structure is both demanded by the Chinese people and necessitated by our desire to build a modern, socialist and strong country. Thus, whether viewed from China's development or from world history, the need to reform the organizational structure of the socialist economy is the same.

Reform of the Organizational Structure of the Socialist Economy Constitutes Another Great Change That Socialist Countries Apply to Productive Relationships after Having Effected Socialist Transformation, the Latter of Which Involves a Change from Private Ownership of the Means of Production

Reform of the organizational structure of the socialist economy does not involve the socialist economic system in the slightest way. Today, there is reform of the economic structure, not of the economic system. Structural reform does not require change in the current economic system; quite the contrary, structural reform serves to consolidate and perfect that system. Structural reform by no means involves class struggle or overthrowing somebody or some social group. Rather, structural reform is a struggle that is initiated from above, responded to from below and effected through vigorous action.

Thus structural reform is but a reform and does not mean revolution in the original sense of the term.

Nevertheless, it appears that such a reform will not be easy to conduct and will face two major difficulties.

First, the primary objective of the reform is to eliminate those things in the economic structure established by Stalin's Soviet Union during the 1930s that hinder growth in social production--namely, irrational things--and to replace them with things that facilitate better development of social productive forces. Yet all things that evolve in history become a force unto themselves and do not readily exit from the stage of history. Many people have grown attached to these things, and many people's interests have become linked to this type of economic structure and thus will be impinged upon by reform. Though the reform will eventually provide these people with even greater benefit, they will not understand that at first. Thus is created a form of "resistance" to reform. The magnitude of this resistance will vary in different socialist countries but is not likely to be minor anywhere.

Second, we still have not determined what shape the reform will ultimately take. We must define the direction of the reform and design a new economic structure, which tasks will not prove easy. Moreover, we are dealing with the organizational structure of the socialist economy, which structure varies in different countries and at different times. Consequently, Marxists must study this problem for each of their countries.

We have mentioned that neither Marx nor Engels provided any plans for future communism and that Lenin studied the economy and politics of only the transitional stage and did not have the opportunity to see the final results of that stage before he left this world. We have also stated that Stalin established the first socialist model in the world. Nevertheless, it should be noted that this model for the most part evolved naturally, as we see no evidence that Stalin actually led any planning for the establishment of a socialist economic structure, which work would have been exceedingly diffi-

cult, if not impossible. For to carry out any planning work, one must first have the necessary information (which is called data in engineering design). During his day, Lenin thought about the economy of the transitional stage, and the data he employed dealt with the development of monopoly capitalism, especially of state monopoly capitalism--banks, syndicates, capitalist-state management of railroads and postal administration, and the like. Stalin did not have much information to work with, either. Now, as we begin planning new economic structures, we have much more data to use than Stalin had. We have several decades of experience in socialist development that we can study, but to master this rich historical material we need powerful scientific forces, which must be sufficiently strong, have a proper grasp of Marxism, possess a thorough and fearless materialist spirit, approach problems with revolutionary dialectics, dare to draw scientific conclusions, avoid being overly cautious and compromising in the face of major, serious scientific problems, possess an appropriate amount of scientific accomplishment, be meticulous and thorough and give sufficient consideration to the complexity of things. I believe these scientific difficulties are considerable and every bit as tough as the first type of difficulties mentioned above.

The objective of the reform of the socialist economic structure is to search, implement, consolidate and develop so as to give fuller play to the superiority of the socialist system and to promote development of social productive forces. Thus in terms of both the difficulty and the significance involved, this reform can truly be called "great." Consequently, I believe that we should recognize that this reform represents another great change that socialist countries apply to productive relationships after having effected socialist transformation, the latter of which involves a change from private ownership of the means of production. How we should evaluate the historical significance of this reform is hard to say, but I suspect that even our highest estimate today will, in the future, probably seem too low.

Reform of the Organizational Structure of the Socialist Economy Will Continue from the 20th Century into the 21st

It is already 1984, and in 16 years we shall enter the 21st century. It seems to me that a reform of such great historical significance as this one will not be easy to complete by the end of this century, because the pioneers of the reform, Yugoslavia and Hungary, have been carrying out a full-scale effort for 30 or 20 years and have still not completed their reforms. And these 2 countries have populations of only 20-plus and 10-plus million, respectively. For other countries that initiated reform later, especially those as large as our China, it would be impossible, I feel, to complete such a task in 10-odd years. Still less possible would it be for those socialist countries that have not yet truly resolved to effect that reform.

10-odd years is but a blink of an eye in terms of the total span of world history, so when I say that this task will not be completed until the next century, I do not intend in the slightest to down-play the urgency of the

reform or to underestimate the importance of the speed at which the reform is implemented. Moreover, I believe that the reform will probably be effected in several steps, so we can strive to complete each step in the shortest amount of time. But, objectively, this reform will definitely take a few years thoroughly to complete.

China Also Faces the Problem of How To Treat the Socialist Economic Structure Stalin Established in the Soviet Union

Next, we shall discuss the reform of the socialist economic structure from the perspective of Chinese history.

The Chinese revolution was won under the leadership of the CPC and through protracted struggle by the broad masses of people and both received some help from and resisted the erroneous "guidance" of Stalin and his Comintern. In choosing our socialist economic structure, we were by no means subjected to any pressure from Stalin, for we maintained independence and freedom of action in both our economic and social policies. Yet after the founding of the CPR, we borrowed a great deal from the structure established by Stalin and subsequently developed by the Soviet Union. Since we lacked experience, this borrowing was to a certain degree unavoidable. Nevertheless, the decision presented us with the same problem faced by many other countries: How should we treat the Stalinist structure? And should we reform it?

It is a historical fact that economic and social development was relatively smooth during China's First 5-Year Plan. Consequently, some comrades have entertained a desire to restore the economic structure of that period, because that structure was later damaged in some places, and this damage made the structure even worse. I have always disagreed with this view. I feel that this is a very superficial way of treating problems, judges things only from the surface and fails to undertake concrete analysis of historical conditions. I believe that the First 5-Year Plan was a time when people's spirit was unusual because China's national revolution had just achieved total victory and people had just gone through a period of rejoicing. At that time, people did not give much thought to their own interests, and most work was very easy to do. The political atmosphere and people's fervor concealed some of the defects in the socialist economic structure, and relatively good results were obtained in economic development. The Soviet Union's First 5-Year Plan was like this, too, but these situations do not endure and cannot be treated as general cases.

Long-Term Dominance of "Leftist" Guiding Ideology Has Made Problems in the Current Economic Structure Even More Serious

For fully 20 years, China was ruled by erroneous "leftist" guiding ideology. During that period, no attempt was made to criticize and correct "leftist" aspects of the the Soviet economic structure or to consider whether or not reform of that structure was warranted. Instead, policy veered even further to the "left," and people criticized Eastern European reforms, the ideology of Soviet scholars who suggested that certain reforms were necessary and

reform-minded Soviet party leaders. Beginning in the late 1950s, a full corpus of "left"-deviationist "theory" gradually began to take shape in China, including such slogans as "the poor are revolutionary, the rich, revisionist," "the bigger and more communal, the better," "take advantage of poverty to make the transition," "smash the legal rights of the bourgeoisie," all the way to "continuous revolution under the dictatorship of the proletariat." Under this erroneous ideology, an attempt was made in the countryside to use that golden bridge, the people's commune, to cross directly into communism. Later, a small retreat was made, to "ownership by the three levels, with the team as the basis," but the problem of "leftism" was by no means resolved. In the countryside, the tail of capitalism was clipped short time and again, and peasant enthusiasm for diversified farming was completely lopped off. In the cities, restrictions were placed on the legal rights of the bourgeoisie and on distribution according to work, so that people received the same reward no matter how much they worked or whether they worked or not. These episodes are innumerable, and there is no need to recount them all. Stalin's approach and the one we added during those 20 years have made the problems of the organizational structure of our socialist economy even more serious, brought economic and social consequences with which we are all very familiar and culminated in 10 years of great turmoil, the "Cultural Revolution."

The Third Plenum Resolved to Carry out Reform in China

Change occurs when things reach extremes. This is a general law of development. The lessons of the "Cultural Revolution" played a big role in raising the consciousness of the Chinese people. It took 2 years of hesitation following the "Cultural Revolution," but the decision to initiate reform was finally made at the 3d Plenum of the 11th CPC Central Committee, which was held at the end of 1978.

This decision was not easy to make. There had not been much opportunity to implement such a reform in China. Naturally, it was impossible even to discuss such a thing during the Cultural Revolution, and thereafter, in 1977 and 1978, everyone was busily criticizing the reactionary opinions of the "Gang of Four" and restoring order everywhere or involved in the vigorous effort to revive basic Marxist principles that had been misrepresented by the "Gang," and thus there was little discussion of economic structural reform during this period. Of course, there was discussion of general ideological guidelines, such as at the meeting held by the State Council in the summer of 1978, but little of this type of work was done. Thus it seems to me that the Central Committee's decision was a very tough one to make.

Naturally, the party's ability to make this decision had a lot to do with the types of people who attended the Third Plenum and the expanded Politburo meeting that made preparations for the plenum. Yet without the painful lessons of the "Cultural Revolution," it is unlikely that a decision on such a weighty matter could have been made so quickly.

The Reform of the Organizational Structure of the Socialist Economy Has Unfolded Rapidly, and the Restructuring of the Rural Socialist-Ownership System Has Achieved Marked Results

Upon appeal from the CPC Central Committee, the reform of the organizational structure of the Chinese socialist economy has been vigorously initiated.

This reform includes two components: the formal structure of the socialist system of ownership, and the administrative system with which the socialist state manages its national economy. I have already stated that different socialist countries or a single socialist country at different stages of development may use different forms of socialist ownership, and the relative importance and position of, as well as the relationships between, each of these forms may also vary in different stages. In this respect, it was essential that China implement reforms, and so she has done.

The core of these earlier reform activities was the implementation of the production-contract responsibility system in the countryside, and the primary form this approach took was the fixing of production quotas for each household and the general implementation of contracts. As everyone knows, however, these forms previously had been criticized and viewed as a restoration of capitalism. It was not until after the Third Plenum that we were able to break out of this strait jacket, but within a few years we successfully made the transition from "three levels of ownership, with the team as the basis" and "work-point assignment" to the production-contract responsibility system. This represents a victory for the Marxist philosophical principle of "practice is the sole criterion by which to measure truth." In 1982, after the 12th National Congress of the CPC, I made an investigative tour of the provinces, and on my return to Beijing I published an article in the RENMIN RIBAO, in which I stated that, if the overturning of the Tiananmen case represented a political victory for "practice is the sole criterion of truth," then the implementation of the production responsibility system constitutes an economic breakthrough for this principle. The effects of the production responsibility system, of household quotas and of the general contract system are obvious to all, so a detailed description is not required.

Now we must continue consolidating the results of this reform. The masses are still afraid that there will be a change in the policy. After the 12th Congress, I visited the Dongyuan Production Brigade in Baotou. This brigade had not begun implementing the production responsibility system until the previous year yet had already achieved marked results. At my query, the brigade, which produces vegetables, told me that its income had increased 130 percent over the previous year and thus was now equal to 230 percent of that of the previous year. When I left, the brigade cadres told me that, when responsible comrades visit the locality, the peasants always ask, "Are these people advocates or opponents of the production responsibility system?" The peasants knew that there are two different points of view among cadres and thus were very apprehensive. I informed the brigade cadres that they could tell the peasants that my delegation approved of the system.

Although this event occurred over a year ago, I hear that peasants are still uneasy about this issue.

Naturally, this issue is no longer a major one. I went to Anhui to participate in a scientific symposium on the problems of small towns. In their speeches at the symposium, responsible cadres from Anhui cited the views of central comrades and treated the increased importance attached to the development of specialized households and small towns as a new direction for rural development that would continue where the implementation of the production responsibility system left off. It seems that a second breakthrough is in the making in the countryside and that rural conditions are excellent. If that is true, then it is all due to the success of the reform of the economic structure. Moreover, the reform did not stop with the first successful breakthrough but instead continues to advance. In this fashion, rural productive forces and rural residents' living standards can be improved one step after another.

Reform Has Been Implemented in Many Areas since the Third Plenum

The rural production responsibility system is not the only reform of the socialist-ownership structure that has been implemented. In recent years, the development of urban and rural collective industry has also become very important. Although this program commenced before the Third Plenum (Jiangsu began this work prior to the Cultural Revolution, and much of the recent economic progress achieved by that province is due to the development of urban and rural collective industry), the program was not fully affirmed in policy and theory until after the plenum. As everyone knows, Jiangsu now leads the other 20-plus provinces and municipalities in gross industrial and agricultural output value.

In addition, much work has also been carried out to reform administration of the national economy. I have not paid much attention to this work and will only note here those things that have impressed me most: changes in the fiscal relationship between the central government and the localities; changes in foreign-trade administration; separate planning for some cities; the expansion of some cities' authority to approve programs to expand foreign economic relations; the permission given to some provinces to implement special policies; giving full play to cities' central roles; the policy of letting cities lead counties; the organization of economic zones; the further opening of coastal cities; the establishment of special economic zones; the expansion of enterprise autonomy; the expansion of factory-manager authority; the change from profits to taxes; the implementation of the economic contract-responsibility system in urban enterprises; the use of contracts in the building, extractive and loading-unloading industries; the elimination of limits on bonuses; the liberalization and broadening of commodity circulation channels; and reform of the wholesale marketing administration. All of these are what come immediately to mind and by no means represent the whole picture. There have many such changes, some of which have been going on continuously, some that are well advanced, some that have been completed and some that have just started. In short, the reform of the

system by which the socialist state administers the national economy has been continuously studied, explored and put into practice and, where effected, has had a great impact on actual life. Thus an atmosphere of reform has descended upon this area.

Naturally, this type of reform is difficult to carry out, and thus the results produced thereby have been less pronounced than those achieved by the rural production responsibility system and the reform of the urban and rural collective economy. Nevertheless, this reform is very important, and major breakthroughs achieved therein will have a very great effect on China's economic and social development. Thus this reform is no less important than that of the rural socialist-ownership system.

Urban Reform Is Catching Up

Small-town development may also be treated as a reform. Success in this work will do much to rationalize urban-rural relationships or, in other words, will facilitate further rationalization of urban-rural relationships in China.

The small-town issue is closely related to rural economic development, so I dealt with the issue in my discussion of the reform of the organizational structure of the rural economy and therefore shall not treat the issue any further. Instead, I shall focus on the matter of small cities, which is included under the general rubric of urban problems. Small cities are distinct from small towns. The issue of how to distinguish these two entities was raised at the scientific symposium on small-town problems convened in Hefei, but we have not had a chance fully to clarify the matter, so we should let those comrades who specialize in this issue study it further. Here, I should like to state my perception of the distinction. If small towns are said to be closely tied, both spatially and in terms of economic relationships, to the countryside, then small cities can be said to be a little further removed from the countryside and to be cities, albeit smaller ones. Medium-sized cities, on the other hand, are not hard to distinguish from small towns.

People are now devoting much attention to the question of whether or not urban reform can catch up with rural reform. I believe that China's economic and social life will greatly advance if urban reform does catch up with rural reform.

Urban reform is very complicated.

Cities have many enterprise units, including factories, shops, other service trades and all types of educational, scientific and cultural units, which naturally occupy very important positions in urban reform. Everyone is busily at work, all types of reforms are being examined or tested, "reformers" have emerged in some enterprises and much gratifying progress has been achieved in this work this year. Some reforms can be carried out internally within certain units so long as unit leaders make up their minds to carry

out reform, and some of these reforms have been successful. Other reforms, however, cannot be handled by individual units and must be treated in connection with the restructuring of the state's system of administering the national economy and with other reforms. This is the tough problem that urban reform often encounters and that can only be resolved when lower levels provide reports on local conditions to and request action from higher levels and when higher levels make and effect decisions based on these communications.

Naturally, urban reform is not limited to the reform of enterprises, that is, to the microeconomic level, but also involves macroeconomic problems, as well. For example, the reform of urban commerce involves problems associated with the relationships among enterprises, between enterprises and local residents and between cities and the countryside. And the establishment of economic zones, the policy of giving full play to the roles of central cities and the like all involve the web of relationships between cities and their environs. Because cities differ in nature and importance (since they possess different industrial, economic and cultural strengths and have different geographical locations, transport conditions, historical traditions and the like), urban reform will also vary in direction and content.

One type of city is located on the coast, and the party Central Committee and the State Council have recently decided to open these cities to more foreign contact, which naturally will make it necessary for these cities to take the lead in reform. These cities' progress in this work is bound to provide a tremendous stimulus to reform in other cities throughout China.

Chinese urban reform is being promoted by two types of stimuli: reform in the countryside and in coastal cities. But, naturally, all cities must also tap their own forces in order to break through the obstacles to urban economic development.

Preparations for Full-Scale Reform of the Organizational Structure of the Socialist Economy Are under Way

Compared to its rural counterpart, urban reform is more comprehensive. Yet even reforms that are more comprehensive are not necessarily full-scale. Full-scale reform has certain prerequisites, which include undertaking a sufficient amount of theoretical study and discussion, clearly determining the direction of the reform, having a detailed and thorough plan for the economic structure that we want to establish and formulating practical and reliable methods and steps for creating that new structure. Only when these things have been accomplished can we carry out complete reform where necessary. Thus full-scale reform differs not only from individual reforms but also from comprehensive partial reform.

China is now making preparations for such a reform, which means that theoretical discussion is under way and a program is being formulated. Meanwhile, such a reform necessitates programs to educate the broad masses of cadres and requires that cadres have a better understanding of structural

reform; this understanding can be gained through an educational program. Naturally, this education cannot be divorced from the results of theoretical research and must make cadres understand the need for and how to implement the reform and what cadres must do in the reform. Thus this education must be linked with the full-scale reform program.

Preparatory work for the reform should also include thorough plans for the steps that must be taken therein.

Excellent preparations are required if a large country like China is to undertake such a reform. Work must continue in the aforementioned areas.

A Special Characteristic of the Reform, As the Latter Is Being Put into Practice, of the Organizational Structure of the Chinese Socialist Economy

Because China is a large country having a population of one billion people, many problems have accumulated throughout history, and thus it would be impossible in a short period of time to clarify all the theoretical problems involved in the reform of the organizational structure of the Chinese socialist economy and to provide a mature program for the full-scale reform of the economic structure. It will take a considerable amount of time to improve everyone's understanding of such reforms, for the related problems cannot be resolved only through propaganda, without giving people an intimate understanding of the reform.

Meanwhile, however, reform is also urgent. Slow economic and social development will not do, because China was very economically and culturally backward prior to the victory of the revolution, and many opportunities to promote more rapid economic growth were lost due to the dominance of "leftist" ideology after the establishment of the CPR. Thus we must rouse ourselves to catch up. We can develop faster than capitalist countries because we are socialist. Yet the advantages of the socialist system do not naturally take their full effect but require tremendous effort on our part. Even such an excellent system cannot be fully exploited if we perform poorly and deal with inessential structural problems that are not part of the system itself. We must not sit idly by and fail to think of methods to eliminate the obstacles hampering development of China's social productive forces and of our other undertakings.

Taken together, these two facts--that it will take a relatively long time to complete preparations for the full-scale reform of the economic structure, and that this reform is very urgent--lead to the conclusion that we must not wait for a full clarification of all theoretical questions, the complete formulation of the reform program, the improvement in everyone's understanding and the completion of most preparatory work before taking action. Instead, we must vigorously act as we prepare. This is how the reform of the China's economic structure has been handled in the last few years.

Experience in the last few years shows that this is the proper way of going about reform. It is precisely because of our experience in reform that we are able to progress in our understanding of problems, and without such experience our discussions would be merely abstract and could go on fruitlessly for years. When people take action and gain success, the original issues become unimportant and give way to newly raised problems, and thus our understanding progresses. The production responsibility system I described above was handled in such a way. The program for full-scale reform cannot be carried out in a vacuum, and people's understanding must be raised through action.

Thus, of these two types of work (vigorous preparatory work for full-scale reform and energetic implementation of reform), the latter must be given preferential attention.

The Momentum of and Resistance to the Reform of the Economic Structure

The reform is bound to encounter all kinds of resistance but also possesses a powerful momentum, which emanates from the broad masses of cadres and people and the leadership of the CPC Central Committee. Cadres and the masses urgently need reform to modernize China and enrich themselves, and the Central Committee proceeds from the general situation in China and the world and vigorously leads and promotes reform.

Nevertheless, since it is a reform, this program is bound to encounter all kinds of resistance, which will come from many quarters. Each person, even people urgently needing reform, may harbor ideas that are inimical thereto, because many things have become force of habit, which fact is a universal phenomenon. But some people differ a bit from most others, are more set in their ways and ideas--which thus are difficult to change--and therefore become greater obstacles to reform. Some of these people are the "beneficiaries" of the old structure and, due to their own interests, do not take much of a liking to reform. Actually, these people do not understand that reform will benefit them, too, and once they understand this point, they will no longer oppose reform. Most opponents of reform have problems in their ideological methodologies. And some opponents have become more obstinate in their stands due to criticism from the masses, to the desire to preserve "face" and positions of authority and to unwillingness to change. This type of person is an even greater obstacle to reform.

Often encountered in reform is the problem of "rational, but illegal" activities. People who undertake this type of reform effort are often hauled into court and accused of committing "crimes," whereas people who cling to "irrational things" that have yet to be legally abolished are allowed to use those things as bases for bringing indictment against such reformers.

Thus reform must receive support from all quarters.

Reform must first be supported by local party branches and governments, which point requires no explanation. In recent years, the localities that have achieved the greatest success in reform and the fastest rate of economic and social development are those whose guiding ideology is liberated and whose party and government leaders have rendered full support to reform.

Reform also requires the support of the mass media, which is next in importance to that of the party and the government. The mass media must take special note of their own role in this area. In recent years, they have not been "unanimous" in their views regarding reform but in general have produced tremendous results in this work, and thus their role should be greatly emphasized.

Reform also requires the support of economists and industrialists. By this, I do not mean support in the form of physical activity but rather financial and material assistance. For example, financial and commercial departments should aid enterprises undertaking reform so that the latter can benefit from the results of the reform in their operations. This type of support will contribute greatly to the success of the reform.

Reform also requires the support of legal circles. By this, I mean legal protection as well as assistance. "Rational, but illegal" reform activities do not actually violate the state's laws, but most of these activities do conflict with some of the regulations formulated by some departments and localities. Legal circles should help us determine whether or not such regulations should be retained and whether or not we can "legalize" rational things and "illegalize" irrational ones. In the past, people who undertook "rational, but illegal" reform often ended up in the defendant's box. Legal circles should protect reformers. Why can't these circles enable reformers to bring charges against people who wantonly attack and obstruct reform and let the latter feel what it's like to stand in the defendant's box?

Reform also requires the support of philosophical workers and social scientists. I hope to write another article, which I shall entitle "Reform and Social Scientists," about the type of support these workers should render.

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CSO: 4006/362

PROVINCIAL AFFAIRS

BRIEFS

JILIN HOUSE SALES--Since the beginning of 1979, real estate administration departments at all levels in Jilin Province have carried out experiments in selling houses to the people. Over the past 6 years, a total of 1,263 new residences with a total floor space of 61,100 square meters have been sold to the people, gaining 3.22 million yuan; and some 15,548 old houses with a total floor space of 674,000 square meters have also been sold to the people, gaining 10.592 yuan [as received]. In addition, in 1984 the province repaired 60,000 square meters of houses and then released them to the people. [Text] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 6 Apr 85 SK]

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30 April 1985

ECONOMIC DEVELOPMENT ZONES

NANFANG RIBAO ON DEVELOPING ZHUJIANG DELTA

HK110650 Guangzhou NANFANG RIBAO in Chinese 6 Apr 85 pp 1, 2

[Article by Du Ruizhi [2629 3843 5347], reprinted from KAIFANG issue No 4 of 1985: "Make Efforts To Do a Good Job in Promoting 'Trade-Industry-Agriculture'"]

[Text] The CPC Central Committee and the State Council have decided to gradually form a production structure of a trade-industrial-agricultural nature in the Zhujiang Delta area. That is to say, the processing industry will be developed according to the needs of the export trade, and agriculture and the production of raw materials will be developed according to the needs of the processing industry. This is China's great plan of utilizing its economic superiority to "promote the introduction of advanced foreign technology and strengthen cooperation with units in the hinterland," to speed up economic construction in the coastal areas, to push forward economic development in the hinterland, and to promote socialist modernization throughout the country under the new situation of reform and opening to the outside world. We Guangdong comrades must follow Comrade Zhao Ziyang's requirements "be resolute," "act with caution," and "strive to win victory," and take the lead in realizing this great plan.

"Trade-Industry-Agriculture" Is the Motive Force of Agricultural Modernization

The "Decision of the CPC Central Committee on Reform of the Economic Structure" points out: The full development of the commodity economy is a prerequisite for China's economic modernization. To fully develop the commodity economy, it is necessary to follow the law of value and to protect and encourage competition on the basis of reflecting the economic law. When the commodity economy is undeveloped, production basically remains in a state of self-sufficiency or semi-self-sufficiency, to say nothing of competition. Under the economic system of unified purchase and marketing, the peasants grow what is decided by the state and the state purchases what the peasants grow. There can be no competition under this system. Through bringing order out of chaos since the 3d Plenary Session of the 11th CPC Central Committee, "leftist" mistakes and old conventions are being eradicated and a major change has taken place in the situation. In accordance with the policy of the CPC Central Committee on enlivening the rural economy, the scope of

mandatory plans is being gradually reduced, that of guiding plans is being expanded, and regulation by market mechanism is playing a more important role. Thus, to enable their products to be recognized by society and to achieve better economic results with less labor, producers must try by every possible means to improve production skills and management, to apply the most advanced production means, and to realize modernization.

To realize modernization, it is necessary to break away from closed-doorism. Modern science and technology are forging ahead and bringing about great changes day after day. If we close our doors to the outside world, it is impossible to "realize" modernization. As the "Decision" points out, "national seclusion will not lead to modernization." Forming a production structure consisting of "trade, industry, and agriculture" is an important strategic plan for breaking down national seclusion and implementing the open-door policy. The "trade" in trade-industry-agriculture will be carried out by taking the international market as the principal target. Our competitors are at a high level of modernization. Since competition is very keen, we must produce high-grade, fine, advanced, most-sought-after, top-quality, marketable, and competitive agricultural products in order to enable them to enter the international market. This requires us to catch up with the development of advanced technology and management.

Utilizing the favorable conditions in the coastal areas, focusing economic construction on the coastal areas, and supporting the coastal areas so as to develop them at a faster rate makes it possible to bring into full play their role in "promoting the introduction of advanced foreign technology and strengthening cooperation with the hinterland." On the one hand, the coastal areas can introduce and digest advanced foreign technology and transfer it to the hinterland. On the other, together with the hinterland, they can exploit natural resources, produce brand-name and top-quality products, develop the export trade, and find ways to the international market. In this way the economy of the hinterland will be developed, the policy of opening to the outside world will be carried out on a broader scale and in a rolling manner, and the "golden areas" will become "areas where gold is seen everywhere."

Many comrades are now enthusiastic about exporting agricultural products. However, some of them remain at the level of "earning more profits from foreign exchange and enlivening the economy." It is not wrong to have such an understanding, but the problem is that they do not have a higher objective in mind. They do not understand that "trade, industry, and agriculture" have organic relations and are of a serial production system under which "trade" is the "tap" guiding and serving agriculture as well as the processing of agricultural products according to the requirements of exporting final products. This is not weakening but strengthening agriculture, which is the foundation of the economy. If we do not focus our attention on "trade, industry, and agriculture," do not take agricultural modernization as a fundamental task, and do not conscientiously do a good job in introducing foreign technology and carrying out technical reform so as to upgrade our profits, but merely rest on our laurels and carry out foreign trade in an exclusive manner, agricultural technical reform will be very slow

and the competitiveness of our products in the international market will drop. Instead of occupying the international market, our products will be squeezed out, and the wish to "earn more profits from foreign exchange" will come to nothing. We have had many lessons in this respect. Therefore, in carrying out trade, industry, and agriculture, we must have a higher objective in mind and fully understand the principle of developing trade, industry, and agriculture. Only in this way can we blaze a trail in speeding up agricultural modernization.

It Is Necessary To Carry Out Reforms so as To Bring Forward the Work of Opening to the Outside World

To form a production structure of a trade-industrial-agricultural nature and expand our export trade, it is necessary to carry out reforms, and in particular, to carry out reform of the foreign trade system.

Our exports of fresh and live products to Hong Kong and Macao enjoy a superiority without parallel in foreign countries and regions. But why have these products tended to decline in the Hong Kong and Macao markets in recent years? There are various causes, but one important cause is that our foreign trade system is not suited to competition in the international market.

One important shortcoming of the current foreign trade system is that the producers are divorced from foreign trade operations. The producers do not understand and do not pay attention to demand in the international market. They are not interested in how products are sold in the international market. Thus they do not try and are unable to introduce advanced technology into reform of their products. Foreign trade operators often blame the producers for delivering low-quality products, while the producers often blame foreign trade operators for downgrading products, reducing prices, and limiting the amount of purchase. The producers concentrate their minds on obtaining better prices by producing products at lower costs; foreign trade operators concentrate their minds on how to reduce the cost of exchange. The two are divorced from each other. This is why many of our fresh and live products and export commodities lack competitiveness in the international market.

In reference to the formation of a production structure of a trade-industrial-agricultural nature, Comrade Zhao Ziyang suggested that the export of fresh and live products should be carried out in a direct manner. This is an important measure for reforming the shortcomings of the current foreign trade system. Carrying out this reform will make it possible to combine responsibility, power, and profits and will add vitality to foreign trade.

How can the export of fresh and live products be carried out in a direct manner? Large enterprises and corporations of the central and local authorities or those run by the government or civilians are allowed to carry out direct export trade with foreign countries so as to break the state of monopoly and to encourage competition. In this way, we will be able to change our foreign trade corporations into corporations of an operational and service nature. Of course, in opening to the outside world, it is

necessary to strengthen management and to form producers' associations or other organizations according to the type of trade so as to coordinate mutual relations. Reforms should not be carried out by rushing headlong into mass action; they should be carried out step by step and in a planned and organized way.

In carrying out the export of fresh and live products and their processed products, it is necessary to exercise management over their distribution. However, the current management over their distribution should be reformed because it is all-embracing, lacks adaptability, and suppresses competition. Export distribution management should encourage and coordinate competition in foreign trade and should not bind ourselves hand and foot. Export distribution management is a double-edged sword. Appropriately exercising management will increase competition in foreign trade, and inappropriately exercising it will harm ourselves. Decisions should be made according to the market situation. Management should be exercised over the distribution of products which have occupied the market. Products which are planned to occupy the market should be distributed in an open manner. Priority should be given to top-quality products while distributing products under the distribution management system so as to encourage competition. Distribution management should be flexible and should be readjusted in line with the changes in products and in the international market.

Develop Our Strong Points, Overcome Our Weak Points, and Bring Our Superiority Into Play

To achieve successes in sharp international competition, it is necessary to bring into play our superiority and overcome our inferiority. In this way we can offset our weak points by developing our strong points.

Regarding the Hong Kong and Macao markets, we enjoy favorable geographical conditions. Not only are freight rates and losses low, but we can also supply fresh and live products as soon as they are processed. In addition, natural conditions for agricultural production in the Zhujiang Delta are superior, with a broad selection of crops and domestic animals and strong adaptability for complicated market situations. Furthermore, the way of life and consumption of the 6 million Hong Kong and Macao compatriots is similar to ours, and so is that of Overseas Chinese. This is beneficial to our exports and imports. We must make full use of these favorable conditions to carry out external economic activities.

Our unfavorable conditions are that our techniques in agricultural production are backward, our skills in processing, preservation, packing, storage, and transportation are bad, and the quality of our products is far below standards on the international markets. Except for native products and some "popular goods," other products have low competitiveness. Therefore, we must strive to raise our scientific and technological level. We must strengthen our study and experiments in agricultural technology on the one hand and actively introduce advanced agricultural technology, improve varieties of seeds, and increase advanced equipment on the other. We must adopt a series of preferential policies to speed up the progress of modernization in the open regions.

In utilizing our favorable conditions, we must pay attention to carrying out key measures and key projects and make a breakthrough in producing products that will enable us to earn high profits in foreign trade. High-grade marine products and high-grade vegetables, fruits, and flowers can yield high profits in foreign trade, but the output of these products is too low. So we are required to organize persons to tackle problems in seed selection, plant cultivation (animal breeding), processing, preservation, packing, and storage by introducing advanced technology and equipment. The food processing industry has great potentials for export, but it has long been our weak link. The food processing industry, textiles, and other light industries are major factors for maintaining a positive balance in foreign trade. It is necessary to organize persons to solve problems in these light industries, to carry out technical reform well, to improve quality, and to increase the quantities for export. Government departments at various levels should provide financial, material, and technical support for these industries.

It is necessary to form an information system and build basic facilities for trade, industry, and agriculture. This requires us to spend a certain amount of money, to introduce advanced technology and equipment, to train talented persons, and to solve problems in collecting, transmitting, storing, arranging, and applying information. In addition, we must plan and speed up energy, communications, and telecommunications construction in the Zhujiang Delta open area.

"Trade-industry-agriculture" is a new problem and a new thing. As we do not have enough experience in running it, we will probe into it in practice. The little experience we have gained should be conscientiously summed up and popularized. We must follow the working line of popularizing experience from a small number of units to more units, introducing advanced foreign technology and carrying out cooperation with the hinterland, consolidating what is achieved, and exploiting victories.

Our province started implementing the open-door policy very early, and many regions are open to the outside world, such as the three special economic zones of Shenzhen, Zhuhai, and Shantou, the two open cities of Guangzhou and Zhanjiang, the Hainan Island open region, plus the Zhujiang Delta open economic zone consisting of Foshan and Jiangmen cities and their 14 counties (cities), which link Guangdong's coastal areas with its hinterland and form a broad open region. We have glorious tasks and heavy responsibilities. We must set a good example for others. We should be full of confidence whether or not we enjoy exceptional advantages in geographical conditions and in natural and social conditions for production. The Zhujiang Delta will certainly achieve successes so long as it is determined to advance along the road of "trade-industry-agriculture" as carefully as wading across a river by stepping on the rocks in it, and to constantly sum up experiences. We hope the Guangdong comrades will make joint efforts in making the work of introducing advanced foreign technology and establishing cooperation with the hinterland shine with dazzling splendor.

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ECONOMIC MANAGEMENT

DALIAN MAYOR LAUDS NEW MANAGEMENT SYSTEM

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[Text] Beijing, 2 April (XINHUA)--Remarkable changes have taken place in Dalian since the system of factory directors assuming full control of their enterprises was introduced last April, Mayor Wei Fuhai said here today.

The experimental management system, introduced in the northeast China port city following approval by the State Council, is also being tested in Changzhou, an industrial center in Jiangsu Province, east China.

In Dalian, the reform affected 180 factories, 65 percent of the state-owned enterprises there.

Wei, a deputy to the national people's congress here attending its annual session, was acting director of a chemical works, one of Dalian's biggest enterprises, in the 1960's.

He said that his authority was quite limited then because the works was in fact managed by the Communist Party Committee.

After the new system was introduced, the party committees in factories relinquished their powers over production, management and personnel, he said.

This shift of responsibility enabled managers to unify direction of production and operations. Although previously party committees were supposed to exercise "collective leadership," nobody was actually in charge in most cases, Wei added.

The new system was formally put forward for wider application by Premier Zhao Ziyang in his report on government work at the second session of the Sixth NPC last May.

The party Central Committee further elaborated on the system last October in a decision on economic restructuring.

Modern enterprises need unified, authoritative and highly effective leadership over production and direction. Only a system giving managers full responsibility can meet this need, the decision said.

It also urged party organizations in factories to actively support managers in exercising their authority, and guarantee the implementation of state and party policies.

Judging from the experiments of the past year, Wei said, the reform defined by the party decision had worked.

As an example, he cited an ironworks which lost 13.48 million yuan in the 13 years prior to 1983. After the director took over the factory last May, a technical upgrading program was carried out and a contract system was introduced. By the end of the year, the works made a profit of 2.8 million yuan.

In another case, a textile mill intended to change its production structure, but no decision was made after dozens of meetings over a 2 year period. When the director took charge last May, he made a decision swiftly and the reforms took effect only 3 months later. The mill raised its profits by 720,000 yuan the same year.

The new system still had to be improved in practice, Wei said, with special efforts to handle correctly relations among directors, party committees and workers' congresses.

Factory directors must put the interests of the state above everything else, he said.

The duty of factory party committees was to see that government policies were faithfully implemented. Workers' congresses should play their role in examining major decisions, supervising leadership and safeguarding the legitimate rights and interests of the workers, he added.

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30 April 1985

ECONOMIC MANAGEMENT

IMPORTANCE OF COMMODITY CIRCULATION IN SOCIALIST ECONOMY DISCUSSED

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 1, 11 Jan 85
pp 1-3

[Article by Xue Muqiao [5641 2550 2890]: "Socialist Economy Must Pay Attention to Commodity Circulation"]

[Text] On 12 October I was invited to attend a seminar to discuss Sun Yefang's [1327 0396 2455] theory of socialist circulation. Because of the rush of time, I was unable to express my view in details about the question of circulation but promised to prepare a written statement upon returning home. Comrade Sun Yefang's criticism over a long time of the "natural economy theory" and the "noncirculation theory" in the sphere of socialist economic theories in the Soviet Union and our country in the past was of great significance both in theory and in practice. The extensive development of commodity production in recent years and the increasing failures of the commodity circulation channels in keeping up with the development of commodity production have verified that Comrade Yefang's criticism of the "natural economy theory" and the "noncirculation theory" was of great realistic significance.

Over the years, we have not been paying much attention to commodity circulation but have attempted to substitute commodity exchange for distribution of products. This kind of thinking has penetrated into our system of planning and managing the national economy and its evil is gradually recognized by everyone. In our national economic planning between the late 1950's and the 1970's, we often did not leave any room for improvement but also created a gap. This resulted in the short supply of various kinds of means of production and consumer goods and also forced us to substitute commodity exchange for the distribution of products as an alternative. In this respect, the distribution of the means of production was particularly evident because most comrades had thought that the means of production were not commodities, therefore they could only be distributed in a planned manner and could not be exchanged as commodities in the market. To this day, our reform of the supply management system is still affected by such a practice. The Soviet planning experts told us in the 1950's that the production plans of the Soviet state planning commission had stacked up 1 foot high and the supply distribution plans piled up 3 feet high. The forms reporting statistics designed by them for distributing supplies were very complicated. Such complicated distribution plans not only made accurate compilation difficult but also still could not include all types of means of

production. For example, there were over 10,000 rolled steel variety specifications and the distribution forms could only classify them into several major categories, and this was also true of machinery products. To make the variety specifications cope with the needs of users, 10,000-man goods ordering meetings had to be called once or twice a year. However, these goods ordering meetings could not resolve the constant changes needed in production by various enterprises, and as a result, the purchasing personnel were seen rushing here, there and everywhere. In the meantime, many surplus means of production remained unsold and stockpiled in the warehouses for a long time thereby further straining the supply of the means of production. In 1980 I saw an exchange market for the means of production in Shanghai where various factories put out detailed lists of their overstocked products in the warehouses to let people select and make purchases at will; they had also put up numerous big-character posters advertising the transfer of possession of the means of production. This market exchange was able to satisfy the needs of users for numerous products in short-supply which the bureau of supplies could not supply and produce. This made me realize that the means of production should also be engaged in market exchange and various major cities should open markets for transacting the means of production and should encourage the enterprises to directly sign contracts for the supply of goods and for ordering goods because it definitely would not do to rely solely on one channel of planned distribution. At present, because the construction scale of fixed assets is still too great and there is still a gap in the supply of the means of production, thus making it impossible to thoroughly change the supply distribution system, some of the critically short goods and materials have to be handled through the state monopoly for purchase and distribution. But it should also be noted that by the standards of Western countries, the goods and materials overstocked in the warehouses of enterprises in our country exceed needs several times over. The reform of the system of distribution of the means of production is not at all impossible and this reform can most possibly ease the strain on the supply of the means of production to a large extent. Energetically developing market exchange in addition to product distribution is an essential way to ease the strain on the supply of the means of production.

As the supply of our consumer goods also fell short of demand in the past, we had to adopt such planned distribution methods as requisition by purchase, assigned purchase and the state monopoly for purchase and supply in limited quantity. The method of supplying the critically short products essential to the people's livelihood while ensuring price stability played an excellent role for a certain period of time. But it is wrong for some comrades to think that this demonstrates the superiority of socialism, thinking that the more products on limited supply the better. From a long-term point of view, we should use the method of readjusting plans and prices to ensure a balance in supply and demand and do our best to minimize requisition by purchase, assigned purchase and the state monopoly for purchase and supply in limited quantity. Beginning from 1979, as a result of our readjusting plans (giving priority to the development of agriculture and light industry) and prices, and particularly our expanding of the peasants' decisionmaking power, assigned purchase of pork, eggs, cotton cloth and their supply in limited quantity were abolished. If the phenomena of turning the purchasing and marketing prices upside down are resolved, the methods of requisitioning grain and oil by purchase and of supply in limited quantity should not necessarily be preserved for a long time.

Phenomena to the contrary have now appeared in many areas, the peasants are not suffering from the excessively heavy tasks of meeting the requisition by purchase quota but rather from difficulties in selling their grain and cotton. Having difficulties in selling (agricultural products) and buying (industrial products) has become a problem that the peasants have urgently asked to be solved. The pressing matter of the moment, therefore, has turned toward the energetic expansion of the channels of commodity circulation in urban and rural areas.

Prior to the 1960's, the peasants were only allowed to farm but not permitted to engage in other work. In the 1970's, even when the commune- and brigade-run industries began to develop, they were still not allowed to engage in trade, and "abandoning farming for trade" is still opposed by many people to this day. Of course, we do not agree to have a great number of peasants abandon farming for trade, however, since our countryside has only limited land and a huge population, some peasants must be allowed to become workers. After commodity production is developed massively, some peasants must again be allowed to abandon farming for trade. It is impossible for most peasants to become businessmen because businessmen must have commodities to sell and without peasants and workers, no businessmen can be produced. For a long time, we have opposed having peasants transport their products over a long distance for sale, alleging that such a practice amounted to speculation and profiteering; it was even branded as development of capitalism. In 1978, I went to Anhui to conduct an investigation where I saw thick piles of bamboo shoot peels and branches in bamboo groves and forests in the mountains. Many mountain products and native products had no customers. I called a special symposium to discuss this matter. The director of a supply and marketing cooperative said that the sales of sunflower seeds, castor beans (castor oil is a high-priced and best-selling product in foreign countries), chrysanthemum, edible fungus and other small local products in Anhui had dropped over 80 percent as compared with the early period of liberation. It was not a matter of no one planting them but rather of no one to harvest them. In the past, small local products were sold through small retailers who later disappeared following the socialist transformation. The supply and marketing cooperatives, which already had great difficulties in fulfilling the state planned purchase tasks, could not take care of those small local products not included in the plan. He also said with a sigh that "I truly could not figure out why transporting the products to the cities to supply the residents there would mean 'capitalism' and letting them rot up on the mountain would be construed as 'socialism!'" I was touched by that remark and upon my return I boldly advocated at a conference of the industrial and commercial administrative bureaus that transporting products over a long distance for sale must be permitted.

The State Council has issued documents allowing peasants to ship agricultural products to the cities to be sold at agricultural trade markets. Many peasants who carried from 100 to 200 jin of stuff into the cities by train had crowded up the trains. In 1980, when I arrived at the Shiliupu wharf in Shanghai, I saw ships on the Guangpu River carrying large quantities of agricultural products from Ningbo and other places, I realized that relying on small retailers alone could not satisfy the needs for the interflow of goods and materials between the urban and rural areas and that big retailers should

be allowed to ship agricultural products to the cities by ships and trucks and buy back industrial products for sale in the countryside. In 1981, when I was in Liaoning, I heard that the people took the initiative to go to other places and encouraged the communes and teams to transport agricultural products in large quantities to the cities. As a result, the difficulties of shortage of nonstaple food that gripped Liaoning Province for a long time was resolved. Last year I went to the old liberated zones of the North Jiangsu war period where I saw a big market town with several hundred shops in the past had now become a cheerless and desolate place with only a handful of state-operated stores and cooperatives left. No wonder the peasants were having a hard time buying and selling things. In the past, a market town was the center of exchange of agricultural and industrial products, without restoring the role of market towns in the interflow of commodities between the urban and rural areas, it will be impossible to cope with the objective needs of large-scale development of commodity production. Some people have said that the network and outlets of state-operated commerce and the supply and marketing cooperatives should be expanded. I said it would not do to count on this method alone and that township and commune- and brigade-run collective commerce and even individual commerce should be permitted. They should be permitted to transport large quantities of agricultural products for sale and to purchase large quantities of industrial products. The state-operated wholesale stations should open their doors to them and help them grow.

My mind was not quite emancipated at that time, I believed that at best collective commerce should be promoted and individual commerce should not be permitted excessively. In 1980 when I was in Shanghai, I heard and also sympathized with the criticism of many comrades about the individual households who purchased farm products at Shiliupu and sold them at hiked prices, in Shanghai they were called "yellow oxen" [scalpers]. In July 1984 when I was in the North Taipingzhuang agricultural trade market in Beijing, I saw several truckloads of early ripe watermelons coming in from Heilongjiang. Many individual households, who unloaded the watermelons onto their three-wheel flatcars at a wholesale price of 0.14 yuan per jin, changed the retail price to 0.25 yuan (which dropped to 0.12 yuan shortly afterward) as soon as they exited the gate. I thought why didn't the wholesale people sell them on their own since the disparity between wholesale and retail prices was so great? A management person said that to sell one truckload of watermelons themselves would take 1 or 2 days, thus it would be better to let the trucks make several more trips. Moreover, if every resident in Beijing had to buy watermelons from a handful of agricultural trade markets, how could so many watermelons be sold? By transporting the watermelons for retail sales in streets and lanes, the individual households had not only made things convenient for the people but also guaranteed compensation for those unripe and rotten ones (the state-operated stores did not allow watermelons to be selected). I suddenly saw the light. The watermelon situation in Beijing in 1984 was far better than that 2 or 3 years ago when the residents experienced extreme difficulties in buying watermelons and many watermelons in the shop rotted away. Because it was permissible to raise prices for resale, this problem was resolved satisfactorily in 1984 at long last. Later I again visited Shiliupu in Shanghai where the things on sale were several times more than in North Taipingzhuang and the place was crowded because there were very few "yellow oxen" and there were

both wholesale and retail sales. Although the state runs retail business for the convenience of the people, this is not quite so in actuality. It is better that some commodities be handled by the collectives than by state-operated enterprises, but collectives, on the other hand, are not as good as individual entities in doing the job. There is nothing to be afraid of by having more individual commerce because business will slack off when too many individual entities are in business, and eventually they will give up on their own. We should emancipate our minds more regarding this matter.

Recently I heard about people criticizing the peasants for bringing large bundles of money to the cities to make panic purchases of various kinds of industrial products. This, too, is thought-provoking: if peasants who have money cannot buy the industrial products they needed in the market towns, what should they do if they do not go to the cities to make the purchases? With each and every person going to the cities to buy things himself, not only is labor wasted, the shops in the cities are also crowded. Since it will be quite difficult for the state-operated stores to develop extensively in tens of thousands of market towns across the country, they should help villages and townships and the peasants to set up stores themselves so as to restore the role of market towns as the distributing centers of commodities for the urban and rural areas as in the past. There is so much cotton cloth and cotton available now that it is worrying, but, on the other hand, I have heard that many herdsmen in Nei Mongol who have money and need cotton clothing and cotton quilts. If we continue to look down on commerce as we did in the past and do not boldly develop the channels of circulation, then commodity production cannot be developed steadily, and the situation characterized by "having difficulties in selling and buying" will remain and the steady development of agriculture and light industry will be impeded in the end.

As we see it now, our call for quadrupling the nation's gross annual value of industrial and agricultural production can certainly be realized. However, commerce, communications and transport industries must also keep pace. In transportation, it will not do to rely on railroads alone, more ships and trucks should be used. It will not do to rely on state-operated enterprises for trucks alone; localities, collectives, individuals and everyone should help to make them available, otherwise commodity production will forever be held back. Commerce and transport are also essential labor in society, but because we made no efforts to figure out their output value in the past, they were not taken seriously. The value of all commodities can be realized only when they reach the hands of consumers, commerce and the transport, therefore, are essential labor in society. The "noncirculation theory" is very wrong and it is also wrong to look down upon or neglect the labor involved in the circulation process and not to calculate its value. Our principle of profit distribution in the past was "industry is more important than commerce," thus turning the commercial departments from profitmaking departments into money-losing departments. Although more labor is consumed in producing most commodities than in the circulation process, it is not a general rule. In shipping Hami melon from Xinjiang to Beijing and Shanghai for sale, the labor consumed in the circulation process is greater than that in production. It consumes very little labor to produce 10,000 sewing needles but tremendously more labor to market 10,000 needles. We should change all our outmoded notions.

I am all for holding the seminar to discuss questions relating to the circulation theory as you did. Before concluding this written speech, I wish everyone a complete success!

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ECONOMIC MANAGEMENT

IMPORTANCE OF STUDYING SOCIALIST COMMODITY CIRCULATION

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 1, 11 Jan 85
pp 4-6

[Article by Sun Guoguang [1327 0948 0342]: "Importance and Urgency of Studying the Question of Socialist Circulation"--A Written Statement to the Seminar on Sun Yefang's Socialist Circulation Theory]

[Text] The seminar on Sun Yefang's [1327 0396 2455] socialist circulation theory sponsored by the Institute of Finance and Trade Supplies Economics of the Chinese Academy of Social Sciences and the editorial department of CAIMAO JINGJI held in Nanjing was another grand gathering to study and examine Sun Yefang's economic theory in accordance with Comrade Yefang's last wish. It will certainly played a tremendous promoting role in studying and resolving important questions in theory and in practice put forth in socialist political economy and in the circulation sphere during the current economic reform.

Sun Yefang was an outstanding Chinese Marxist economist. In his lifetime of frustrations, he had devoted all his energy and made important contributions toward disseminating Marxist political economy in China and in developing socialist economic theory and had left behind for us a valuable scientific legacy. The socialist circulation theory is an important component part of it. Even though Comrade Yefang did not have time to systematize his views on the socialist circulation theory, these views have occupied an extremely important position in the system of his socialist economic theory. In a certain sense, Comrade Yefang's study of socialist economic theory started out from his criticism of the theory of natural economy. His socialist circulation theory was the result of his obstinate struggle against the theory of natural economy in particular. For a long time, the theory of natural economy had occupied a leading position on our theoretical front and in the guiding principles of our economic work. In light of theoretical work, while the study of the circulation question had been weak, the tendency of laying stress on production and belittling circulation in actual work had become very prominent. Over the years, Comrade Yefang had loudly appealed to the public to changing this situation by reiterating that attention should be paid to studying the question of circulation and that planning and statistics should be based on the law of value. He also pointed out that the key to a planned economy lay in circulation and emphasized that efforts should be made to improve the circulation and turnover of funds and raise results in the utilization of funds. As time passes and practical work progresses, we have felt

more and more profoundly that all these profound thoughts of Comrade Yefang are not only extremely valuable to perfecting the system of socialist economic theory but are also of great significance in building real economic life having a bearing on the many important policy decisions in our current economic reform.

Since the Third Plenum of the 11th CPC Central Committee, a series of reforms has been pushed forward in various sectors of the national economy. Through practices in several years, outstanding progress has been made in various areas, rural reform has scored a tremendous success and urban reform is also fermenting in an important breakthrough. Meanwhile, as the reform progresses further, we have also felt even more the importance of the question of circulation. With policies relaxed, the power of enterprises expanded, production developed and products increased, and the quantity of commodities entering the circulation sphere is bound to increase greatly. The development of commodity production and the more minute division of work in society has augmented the horizontal relationship among enterprises, making it more complicated. This new situation, reflected saliently in the sphere of circulation, has shown that the original management system is incompatible with the development of the forces of production. The objective situation has given us no choice but to pay attention to studying and resolving questions relating to circulation.

An important objective of our carrying out the reform of the economic management structure is to set up a perfect and sensitive national economic regulatory system. How to give play to some of the most important economic levers in this system, such as prices, credit and taxation, represents important questions directly bearing on the sphere of circulation. Whether or not these questions can be resolved properly will have a direct bearing on the success or failure of the reform. Comrade Yefang had mentioned time and again that the major questions to be solved in the planned economy did not lie within the enterprises or in the process of direct production. When we say we want to replace the spontaneous anarchic market economy with a planned economic management system, we are referring not to the direct production process within the enterprises but to the process of material turnover among the myriad of enterprises in the whole society; that is, we mean the circulation process. That our economy is called a planned economy is not only because every enterprise itself has a plan from within but also due to the fact that the production, supply and marketing relationship, namely, the circulation process or market relationship among each individual enterprise, is also organized together in a planned manner to form a unified organism. Comrade Yefang's elucidations had pointed out very clearly that the key to planning lay in circulation. But in the past our planning had laid particular emphasis on using material targets to control production, allocation and transfer and distribution of products, as a result, for over 30 years we have not been able to properly solve the question of planned management. In instituting reform of the system of planned management, the first thing to be done is to properly solve the question of circulation and respect the law of value. The guiding principles for drawing up plans should aim at organizing circulation well, in selecting the means of planned management, with particular emphasis being laid on the sphere of circulation. In short, as the reform progresses to today's magnitude, it calls upon us to ideologically and theoretically wipe out the influence of the view

of natural economy, discard all sorts of old and decayed ideas in the noncirculation theory, foster the new circulation concept and embody it in our economic reform.

It goes without saying that ideologically and theoretically speaking, it is not a very easy matter to truly realize the above-mentioned changes in the course of practice. This is because the theory of natural economy has had a very profound effect on us. Our country has long been dwelt in a semi-self-sufficient economy, the commodity economy is very underdeveloped and we are bound by the force of habit and narrowmindedness of small-scale production. For more than 30 years, the influence of the planned economic management system heavily colored with the views of natural economy has penetrated into various segments of our economic life. All these have engendered tremendous resistance to the study of socialist circulation theory and to the reform of the economic structure as well. This has made the tasks more strenuous for our theoretical departments and called upon us to emancipate our minds further, to get in touch with realities and to make every effort to probe and practice so as to put forth new questions for us.

As far as the sphere of circulation is concerned, there are many many important questions that merit our further study, for example, the relationship between the commodity economy and the planned economy. For a long time, we have been looking on planned economy as a thing antagonistic to commodity economy in the belief that socialist economy based on the public ownership of the means of production (particularly ownership by the whole people) can only be a planned economy and not a commodity economy at the same time. This kind of lopsided understanding has been corrected through discussions after the Third Plenum of the 11th CPC Central Committee. More and more comrades have realized that the unanimity of the fundamental interests of the socialist economy based on public ownership has determined its basic characteristic, is the planned economy; on the other hand, differences in specific interests among various sectors also militated that it had to preserve its commodity economy attributes. Although contradictions do exist between the planned economy and the commodity economy, they are not incompatible with each other. Our planned economy at the present stage is naturally a planned economy coexisting with the commodity economy and with the presence of conditions of the commodity economy. However, this understanding is not firm, when twists and turns appeared in the course of reform, some comrades vacillated again and raised anew the view that the planned economy is antagonistic to the commodity economy. Undoubtedly, men's cognition cannot be consummated in one stroke, wavering as it happened is also compatible with the law of cognition. However, this also shows that overcoming the influence of the theory of natural economy is a protracted and arduous task. To this end, we should, as Comrade Yefang did, continue to make indefatigable efforts to enable everyone to understand that the socialist economy in our country is a planned economy based on the public ownership of the means of production embracing commodity production and commodity exchange and a planned economy retaining the attributes of the commodity economy. One of the objectives of the reform we are carrying out is that it must be to the advantage of developing commodity production and commodity exchange and making the circulation of commodities smooth.

In relation to the above-mentioned questions is the question of how to establish a regulatory system for economic activities. In the past, some of our comrades had always insisted that planned economy could only be regulated through planning. So-called planned regulation meant precisely regulation by relying primarily on mandatory plans and by breaking down planned targets and distribution in kind, level by level, with administrative decrees to ensure that the plans were materialized and that only in this way could genuine planned economy be achieved. Practical experience shows that regulation primarily through mandatory planning has often controlled the economy too rigidly, resulting in very poor economic results. If we realize that our economy is a planned commodity economy, then our reform should fully consider the regulatory role of the market mechanism, in other words, the regulatory role of the law of value. We should persevere in taking planned regulation as the key factor, but planned regulation must be integrated with the market mechanism; we must adopt economic means whenever possible to supplement the administrative and legal means. The so-called economic means are precisely economic levers such as prices, taxation and credit and so forth. In this way, the question again goes back to circulation. Take the question of prices, for example. Under conditions of the commodity economy, competition in the main means economic competition, market information is principally transmitted through prices, the market mechanism is primarily reflected through prices and the law of value is realized through the constant movement of prices in the market. All this has a direct bearing on the accuracy of planning and the rationality of the pricing system. Yet most problems exist in the field of pricing becoming the focal point of reform that should be pushed forward further. The application of each and every economic lever, such as prices, taxation and credit, has a rich feature requiring us to study and probe into it. Many comrades attending this seminar are experts in these fields, and I am confident that everyone will make still greater efforts and contributions. In my view, besides making specific studies of each economic lever, we should devote ourselves mainly to strengthening the study of the comprehensive application of various kinds of economic levers. This again will call upon us to strengthen horizontal relations in our study of economic theory, by taking into consideration of the question of the microeconomy and the question of the macroeconomy and paying attention to the study of the entire system of circulation. Only by so doing can we improve planned economy.

The circulation of commodities is the main object of the study of the circulation process. Due to the influence of the noncirculation theory, many comrades' misunderstanding of the commodity economy, the slow economic development over a long period of time and the lack of product varieties, our circulation of commodities, including the circulation of consumer goods and the means of production, are heavily tinged with the color of the system of rationing in kind. As a result, the practice of acquiring consumer goods by coupons and certificates and the planned distribution of the means of production are called "planned supply" and have been looked upon as the hallmarks of the superiority of the socialist planned economy. In essence, these measures were implemented as an alternative to cope with the situation in which demand exceeded supply. The question of circulation of the means of production involved had become more conspicuous. By implementing planned distribution and unified allocation of the means of production, production-supply-marketing activities have been

tightly restricted within the confines of mandatory planning; the production tasks of enterprises are decided according to plans handed down by the higher level, with raw materials to be distributed and products to be allocated in a unified manner by the higher level, thus equating the complicated social division of labor with the technical labor of labor within the enterprises and equating the whole society with a large factory. This represents the most typical theory of natural economy. The material supersession or turnover of social reproduction involves hundreds and thousands of complicated movements of use value, so that simply including them into a unified plan is bound to cause dislocation between production and demand and result in shortages of goods and materials, on the one hand, and overstocking of things in the warehouses, on the other hand, and tying up a large amount of circulating funds. Such abnormal phenomena have been considered by some comrades over a long time as common practice in the commodity economy. This in fact is a very grave misunderstanding. As we know, The economy in the future society originally predicted by Marx and Engels assumed a great abundance of goods and materials. Nevertheless some of our comrades have often elevated the abnormal phenomenon of the shortage of goods and materials that appeared during the immature stage of socialist development to the level of theory, denying the commodity nature of the means of production by asserting that they represented the product aspect of the advanced stage of communism. This represents not only a distortion of the product economy but also an incorrect understanding of socialist superiority. "Demand exceeding supply" should not become a socialist economic law since it was brought about by our planned economic management system that does not suit the development of the forces of production and was caused by the imbalanced development in production. Our reform is precisely for solving such a question. If this question is not properly solved, our economy will constantly experience shortages in goods and materials and a strained market supply that will eventually force us to resort to rationing. It will inevitably restrict the development of commodity exchange. To enable the means of production to move in line with the law governing commodity circulation, we must objectively have a more relaxed market for the means of production. I think that a buyer's market with greater supply than demand is needed for the means of production as well as for consumer goods. Only by bringing into being of such a buyer's market can consumers have the right to choose the best and purchase selectively, can they make the producers and sellers compete, pressure the producers to improve operations and management and urge them to pay attention to improving techniques, raise the quality of products, reduce production costs and improve service attitudes. Conversely, without such a more relaxed market, reform in many fields will be out of question and we will have to go back to the old road. How can such a more relaxed market be brought about? I have always thought that the bringing into being of a buyer's market or a seller's market is not only a commercial question but also a strategic question of comprehensive balance of the national economy and a question of macro-cosmic policy decision. Take the needs for the means of production, for example, aside from the needs of simple reproduction, they are mainly determined by the scale of investment of fixed assets. If the investment scale is excessively large, exceeding the limit of what financial and material resources are committed, the supply of the means of production will fall short of demand. A reasonable investment scale should be considered in the light of the comprehensive balance of the national economy. Only by allowing some leeway in planning can supply and demand be relaxed as a whole. In an other aspect,

only by developing production and increasing products can the market supply be increased and supply and demand relaxed. To develop production and gear production toward the market and react to market information sensitively with strong adaptability, it is necessary to delegate power to the enterprises in operations and management so that enterprises have more decisionmaking power in operations, including the power to basically reform the old planned management methods, reduce mandatory planning as much as possible and adopt more guiding plans to mobilize the enthusiasm of hundreds and thousands of enterprises and let them pay attention to the market, produce to cope with the needs in the market and turn out marketable products that can satisfy the needs by dint of their inherent driving force and pressure of competition. Only by having more and unhindered channels can circulation be invigorated and the national economy as a whole be enlivened.

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CSO: 4006/407

ECONOMIC MANAGEMENT

BRIEFS

CHEMICAL PLANT SELLS APARTMENTS--Beijing, April 11 (XINHUA)--Beijing's No 2 chemical works announced today that some apartments have been sold to its workers at one third of the original cost and the balance was paid by the factory. Each of the 36 newly-built apartments, in Chaoyang District, Eastern Beijing, has two rooms, a kitchen and a toilet, and cost 16,000 yuan to build. Some of the new owners paid some 5,300 yuan in a lump sum while others chose to pay in installments over five or 10 years. Though the apartments are the property of the occupants, they cannot sell, lend or exchange them without the permission of the factory. Their children, however, can inherit them. According to Jiang Huisheng, a chemical works official, the advantages of selling apartments outweigh those of renting them out. Present rent levels are hardly enough to pay for maintenance, he said and proceeds from sales can be used to put up more buildings. The municipal authorities decided last year that at least 20 percent of new apartment buildings put up by factories or other work units should be sold at a discount to the workers, and that the work unit should assume the remaining cost. Jiang noted that in order to buy the apartments, most families in the chemical works borrowed money from relatives and friends. Since the demand was great, those with the greatest need as well as the ability to pay were given priority, Jiang added. Beijing started a pilot scheme of apartment sales in 1981. [Text] [OW111136 Beijing XINHUA in English 1121 GMT 11 Apr 85]

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FINANCE AND BANKING

MINISTER WANG BINGQIAN DISCUSSES NEW FINANCIAL MANAGEMENT

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 5, 4 Feb 85 p 15

[Interview with Wang Bingqian by Zhu Minzhi [2612 2404 0037]: "Wang Bingqian Emphasizes that We Must Study New Methods of Financial Management"]

[Text] Our reporter interviewed Wang Bingqian, State Councillor and Minister of Finance, on the current financial situation and the financial work of 1985.

Fifty-year-old Wang Bingqian has been engaged in financial work for a few decades and is one of China's preeminent specialists on financial management. In responding to the reporter's questions, he summarized the current financial situation and analyzed the problems that must be solved in China's financial work and the tentative plans for financial reform that must be realized.

In reviewing China's economic situation in the past few years, Wang Bingqian happily said that China's gross value of industrial and agricultural output increased an average of 7.9 percent from 1979 to 1983 and total retail sales of social goods increased an average of 12.8 percent per year. In 1984, the gross value of industrial and agricultural output is expected to increase 11 percent compared to the year before and retail sales of social goods could increase 17.4 percent. This is a significant accomplishment. On this basis, China's revenue has also gradually increased over the past few years and there has been a fundamental balance between revenue and expenditures for the past few years in a row. This is a guarantee for the state's key construction, for the development of all industries and for the improvement of the standard of living of the people.

Wang Bingqian pointed out that the improvement in the financial situation is inseparable from the reform of financial work in 1984. The implementation of the substitution of tax payment for profit delivery caused a distribution relationship to be fixed between the state and enterprises in the form of taxes and thereby aroused the enthusiasm of enterprises for increased production and revenue. At the same time, the financial system

of "eating in different kitchens" and has also aroused the enthusiasm of localities to manage finances and has improved the results from using funds.

[Question]: How do we suit the new situation and accomplish financial work in 1985?

[Answer]: Wang Bingqian said that we must study new methods of financial management including generating finances, accumulating finances and using finances. We must cause financial departments to become management and administrative departments of the state and make way for and serve the new situation of vigorous development.

First, we must establish a correct economic standpoint. At the same time as drawing up plans and handling problems, we must study economic situations, participate in economic policy decisions, be involved in enhancing economic results and developing social productive forces, adopt every possible method, stimulate the economy and develop and open up financial resources.

Doing financial work is not merely giving money and then considering it as supporting and promoting economic development, but more importantly, it is studying and drawing correct financial policies and reasonable rules and regulations and giving full play to the role of finances, tax revenue, credit and other economic levers.

We need a large amount of funds to carry out the four modernizations, and in addition to competently using funds within the budget, we must also do a good job at using funds outside of the budget; we must also use the funds in society, and there is great potential in this respect. Currently, there are more than 100 billion yuan in funds outside of the budget and there are also nearly 80 million yuan in rural funds. Financial departments must study the distribution and circulation of these funds, and by drawing up the necessary policies and guiding plans, must guide these funds into those areas that really need state construction.

[Question]: What is the key to financial reform at the present time and in the future?

[Answer]: Wang Bingqian replied that the key to the reform of financial work in 1985 must be concentrated in the following few areas:

We must further improve and promote the reform of the substitution of tax payment for profit delivery, competently handle the relationship between the state and enterprises using a reasonable form of tax revenue and truly create a division between enterprise ownership and management authority.

We must reform and complete the financial management system and competently handle the relationship between the central government and localities.

We must readjust and reform the fund distribution structure, competently handle the proportionate relationships between key construction and what is normally needed, accumulated and consumed and between key construction and agriculture, light industry and heavy industry, and we must ensure the smooth realization of the Seventh 5-Year Plan.

We must reform the form of the supply of funds, use economic measures to strengthen the management of funds, use money well and improve the results from using funds.

We must establish a comprehensive financial plan and strengthen macroscopic control and adjustment. We must carry out overall planning by working out a plan to forecast society's total financial resources, and through such measures as economic information, economic levers and economic legislation, channel society's financial resources into those areas in which state construction is needed.

Finally, Wang Bingqian stated that financial reforms are multifaceted, the circumstances are fairly complex, and these reforms must be carried out gradually in order of importance and urgency; we cannot rush headlong into mass action. To do a good job at financial reform we must also uphold the policy of integrating a relaxed posture with rigidity. Financial reform is not blindly "slackening" power, but there must be slackening with strictness. We must differentiate between different circumstances and adopt different measures. He firmly believes that with the comprehensive development of the restructuring of the economic system, the reform of financial departments must also give rise to a new heartening situation.

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FINANCE AND BANKING

FINANCE MINISTER DISCUSSES FINANCIAL REFORM

Beijing CAIZHENG YANJIU [THE STUDY OF FINANCE] in Chinese No 6, 30 Nov 84
pp 1-8

[Article by Wang Bingqian: "Issues on Current Financial Situation and Financial Reform"]

[Text] The financial issue is a major issue concerning the overall development of the national economy. It is also an issue which comrades are extremely concerned with. I will now express some of my views on the issues of current financial situation and financial reform.

I. Current State Financial Situation

The current state financial situation may be summarized in three sentences, namely: China's financial situation is improving rapidly; currently, the state still has quite a few financial problems; and it is totally possible to achieve a fundamental turn for the better in the financial situation after several years of efforts.

What are the manifestations of the rapid development in the current financial situation?

First, state revenue has changed from consecutive years of decline to a steady growth. We all know that during the 1978-81 period, in order to implement the principle of "readjustment, restructuring, consolidation and improvement," state financial departments used large amounts of funds to solve many long-standing problems especially those left over from the 10 years of civil strife, resulting in a temporary decline in state revenue which lasted for several years. However, along with implementation of the eight-character principle, the economic structure has been gradually rationalized. Since 1982, state revenue has begun to increase on the basis of steady development of production. In 1982, domestic income was 6.6 percent more than in 1981. In 1983 it was 11.7 percent more than in 1982. In the first half of 1984, the situation was even better--the domestic income was 22.6 percent more than in the corresponding period of 1983. Of course, this was only in the first half of 1984. The annual growth cannot be so big. However, if we do a good job, it is entirely possible to overfulfill this year's revenue task and achieve relatively greater increase over last year.

Second, expenditures have basically guaranteed the needs of the development of that state's key construction projects and various other construction undertakings. The irrational situation of expenditure structure has improved somewhat. In 1981, in order to further readjust the economy and reduce financial deficits, the state had no choice but to temporarily tighten capital construction appropriations and national defense spending. Since then, along with the gradual improvement of financial situation, such expenditures have begun to increase again. Since 1982 in particular, in order to centralize financial and material resources to guarantee key construction projects, state financial departments have adopted several measures to centralize funds, and thereby further strengthen energy, communications and other key construction projects. Cultural, educational, scientific and public health expenses have been increasing year after year and the average annual increase during the 1978-83 period was 14.7 percent. Administrative and management expenses have also increased in recent years because the staff has expanded and especially because political and legal organizations have been restored and strengthened to attack criminal activities. In sum, in the past 5 years (from 1979 to 1983), the distribution of revenue and expenditures has adhered to the principle of guaranteeing key projects while giving due consideration to general projects. In the past 5 years, expenditures totalled 604.7 billion yuan. Of this, 51.7 percent or 312 billion yuan was used in economic construction; 18.3 percent or 110.9 billion yuan was used in social culture and education; and 22.7 percent or 137.1 billion yuan was used in national defense and administration and management, basically guaranteeing the needs of the development of all state construction undertakings.

Third, on the basis of restoring and developing production, the state has readjusted the policy of distributing accumulation and consumption, making it possible for the people in urban and rural areas to improve their life continuously. According to our statistics, during the 1979-83 period, after increasing the purchase prices of farm and sideline products, the state spent 143.8 billion yuan on various price subsidies and used 129 billion yuan to make arrangements for urban labor employment, increase the wages of staff members and workers, implement the bonus system and build staff and workers' housing and urban public facilities, totalling 272.8 billion yuan. According to statistics, the net per-capita annual income of a peasant household in 1983 was 1.3-fold higher than in 1978; the per-capita annual income of an urban staff member and worker's family in 1983 was 66.5 percent higher than in 1978. Although prices have gone up in the past few years, the living standards of staff members and workers have improved markedly because employment and wages have also increased and because the bonus system has been implemented. Due to the gradual improvement of the people's living standards, the people's savings deposits in urban and rural areas of China in 1983 increased 3.2-fold as compared to that of 1978.

Fourth, the initial reform has expanded the decision-making power of localities and enterprises and aroused their enthusiasm. In the past few years, the state has implemented the financial system of "separating receipts and disbursements and signing contracts at various levels" in localities, adopted the systems of enterprise fund, profit retention and profit and loss

contract as well as the first step in substituting tax payment for profit delivery in state-run enterprises, changed appropriations to loans on a trial basis in some capital construction units and adopted the budget contract system in administrative establishments and units. At the same time, the state has also carried out many reforms in taxation, thereby increasing the financial power and reserves of localities and enterprises. In the past 5 years, state-run enterprises have gained a benefit of 68.1 billion yuan from the expansion of decision-making power. This has played an outstanding role in arousing the enthusiasm of localities and enterprises for increasing income and economizing on expenditures. It also has played an outstanding role in invigorating the economy.

Fifth, financial deficits have been reduced and a basic balance has been achieved between revenue and expenditures for 3 consecutive years. The state had huge deficits for 2 consecutive years--17.06 billion yuan in 1979 and 12.75 billion yuan in 1980. When the proportion of financial deficits to revenue reaches two digits, it is a danger sign. Because of this, in 1981 the central government adopted emergency measures for further readjusting the economy and tightening expenditures and achieved marked results in the same year. In 1981 financial deficits were reduced to 2.551 billion yuan. Since then, although various price subsidies and expenditures have substantially increased, revenue has increased due to the continuous development of production. A basic balance was achieved in 1982 and 1983.

Looking back on the road we have taken in the past few years, we all are happy about the rapid improvement in the state's financial situation. It is indeed not very easy to make such an achievement. We should attribute it first to the fact that the CPC Central Committee and the State Council have paid great attention to financial work. In the past few years in the process of carrying out economic readjustment and system reform and implementing the policy of invigorating the domestic economy and opening to the outside world, the CPC Central Committee and the State Council have conducted repeated studies of financial problems and adopted many major measures. For example, in the beginning of 1980, they called a special meeting of first secretaries of various provincial, municipal and autonomous regional CPC committees to discuss the issue of reducing financial deficits and adopt corresponding measures. At the end of 1980, the CPC Central Committee discovered that although financial deficits were reduced in 1980, latent financial and economic crisis had not been alleviated or eliminated. Therefore, in December 1980, it called another special central work conference to formulate the strategic principle of further readjusting the economy and further stabilizing the political situation. The financial situation improved substantially after one year of efforts. In the beginning of 1983, in view of the existing problems of decentralized financial resources, construction fund shortages and weak key construction projects, the CPC Central Committee further set forth the principle of centralizing financial resources to guarantee key construction projects and the State Council formulated and put into effect a series of measures aiming at centralizing funds. In 1983, the CPC Central Committee and the State Council called another special meeting to discuss the problem of enterprises turning deficits into profit and achieved marked results. The tax-for-profits reform

was also carried out under the personal supervision of the leading comrades of the State Council. This fully proves that the attention of leaders of the CPC Central Committee and the State Council is a guarantee of the rapid improvement of the financial situation. The reason that the CPC Central Committee and the State Council have paid so much attention to financial work is, in my opinion, that the financial issue has a vital bearing on the national economic situation as a whole and that financial improvement is conducive to the stable development of the whole economy, consolidation and development of the good situation, the smooth progress of readjustment, and reform and the realization of the four modernizations.

Financial improvement is inseparable from the outstanding achievements scored in economic readjustment and reform in the past few years. The financial situation is a comprehensive reflection of the overall economic situation. In the past few years, through the cooperative efforts of the people of all nationalities, the proportion of China's national economy, including proportions between accumulation and consumption, between agriculture and industry and between light industry and heavy industry, have been gradually coordinated and the whole economy has begun to enter a benign circle. The rapid development of agricultural production, the consolidation of industrial and commercial enterprises and reforms and various activities to increase production and economize on expenditures carried out by all trades and professions in China have further accelerated the development of productive forces and increased economic results. All this has played a decisive role in improving the financial situation and is an important prerequisite and foundation for a quick turn for the better in the financial situation.

Besides, another important reason is that financial, tax and accounting departments at all levels have exercised strict control over expenditures and stopped various loopholes. During the 1981-83 period, China carried out three general financial inspections, discovered 12.6 billion yuan of violations and collected 5.7 billion yuan of overdue payments.

Financial situation is improving rapidly. However, this does not mean that financial problems have been solved. As Premier Zhao Ziyang noted in his report to the Second Session of the Sixth NPC, "Currently, we still have quite a few problems. Economic results have begun to improve, but they are not yet satisfactory. The most important thing is that economic relations have not been well coordinated. The price system, in particular, is irrational, but it does not have the conditions for across-the-board reform in the near future. This has a great impact on the benign circle of the economy. State financial subsidies have become a great burden and there is a serious shortage of central revenue. We are facing the task of carrying out large-scale construction but we do not have enough funds and our contradictions are concentrated. This is a prominent problem in China's economic development. We must not lower our guard just because the general situation is good.

Where are our current financial problems manifested?

First, state financial resources are decentralized and capital construction funds are insufficient. Due to poor economic results, the heavy burden of

financial subsidies and overcentralization of funds in the past 5 years, the average annual increase of budgetary state revenue was only 1.6 percent, much lower than the 7.5 percent average annual increase in total industrial and agricultural output value and the 6.4 percent in national income. However, extra-budgetary funds have increased rapidly, averaging 22.7 percent a year. In 1983, such funds amounted to 79.8 percent of budgetary revenue. In 1978, the proportion of budgetary state revenue in national income was 37.2 percent, which was obviously too high. But after 1978 the proportion declined every year. By 1982 it had dropped to 25.4 percent. The central government once demanded that the proportion of revenue in national income be gradually raised to 28 to 30 percent, but the proportion still remains at 25.9 percent although measures for centralizing funds were taken in 1983. It looks like the demands of the central government will not be met in the near future.

Second, the central government controls very few financial resources and has great problems. In the past few years, due to national financial deficits, both central and local governments suffered financial problems, but central financial problems were bigger. Central financial problems are caused mainly by the heavy burden of expenditures borne by the central government and its lack of control over revenue. In 1983 revenue collected at the central level and revenue handed over by localities accounted for only 51.9 percent of national revenue whereas central revenue was used not only for administrative expenditures at the central level but also for major national expenditures such as capital construction appropriations for key construction projects, most price subsidies for grain, cotton, edible oil and other farm and sideline products, national defense spending, aid to foreign countries and payments on the capital and interest of foreign loans. In addition, central revenue was used also for regional regulation and assisting the tasks of minority and economically underdeveloped areas. These needs can hardly be met because of a lack of control over financial resources by the central government. Leading comrades of the central government once demanded that financial resources under the control of the central government reach 70 percent of national revenue in order to guarantee the expenditures of key state construction projects and other necessary expenditures of the central government. At present, there is still a long way to go in meeting this demand.

Third, the state has quite a few debts. In the past few years, in order to raise construction funds, we have borrowed some funds from foreign countries in addition to issuing 13.4 billion yuan of treasury bonds. Issuing treasury bonds and borrowing money from foreign countries are means to raise funds. As long as the amount is moderate and money is used properly to yield considerable results, such means are conducive to accelerating the four modernizations. We should continue borrowing money for our construction in the future on the condition that we adhere to the principle of self-reliance. However, borrowed money needs to be returned. Judged from the current situation, payments on the principal and interest of domestic and foreign debts are limited in the "Sixth 5-Year Plan" period, but they will reach the peak period in the "Seventh 5-Year Plan" period. In addition, most bank loans released to enterprises for capital construction and technical measures need to be repaid with increased income in the "Seventh 5-Year Plan" period.

If projects financed by loans fail to yield economic results, debt repayment will create enormous pressure in the "Seventh 5-Year Plan" period.

China's financial problems are to be expected in the process of advance. They are mainly caused by poor economic results, the heavy burden of financial subsidies and relatively decentralized funds. Now that we understand these problems, we should do a better job in readjustment and reform, coordinate economic relations, arouse the enthusiasm of all fields, further invigorate the economy and increase economic results by a relatively big margin, under the leadership of the CPC Central Committee and the State Council. At the same time, we should also properly centralize funds, reduce financial subsidies and increase state financial resources so as to achieve a fundamental turn for the better in the state's financial situation.

II. Future Task of Financial Work

Our financial work is to serve the implementation of the party's general lines and tasks in various historical periods. The strategic goal of the four modernizations--quadrupling the gross value of industrial and agricultural annual output by the end of this century--which was set forth by the 12th Party Congress, is the biggest political matter there is at present. Therefore, in the future financial work, we should voluntarily and creatively implement the line, principles and policies of the central government, correct the thinking of financial management, bring into play creative spirit, vigorously carry out reform, pay attention to the ways of creating, accumulating and using wealth, open up a new prospect in financial work, gradually achieve a balance between state revenue and expenditures and strive to achieve as soon as possible a fundamental turn for the better in the financial situation so our work can be better subordinated to and render better service for the strategic goal set forth by the 12th Party Congress. To do a good job in financial work we need to rely on the cooperative efforts of the whole party and people throughout the country. We also need to rely on the vigorous support and coordination of all trades and professions. At the same time, financial and tax departments at all levels must pay special attention to carrying out a large amount of painstaking work. Now I will discuss several questions in accordance with the party consolidation report recently submitted by the Ministry of Finance to the Secretariat of the CPC Central Committee and the State Council and the guidelines of the directives delivered by the leading comrades of the central government.

1. Correct the guiding ideology of professional work and bring about a new change in financial work.

Currently, both political and economic situations of the state are very good. The four modernizations are forging ahead vigorously and all sectors are thriving and flourishing. It was under these conditions that the CPC Central Committee issued the following directive: "The central task of current financial work is to gradually change old customs and practices in accordance with the degree of maturity and subjective and objective conditions to clear the way and render service to the vigorously developing new situation. It is necessary to follow this ideology and make it become the unified ideology

of the whole financial front. This important directive of the CPC Central Committee is totally correct and very timely. It needs to be conscientiously studied, thoroughly understood and resolutely implemented. Looking back on history, after the national economy entered the period of planned construction, financial work experienced a change from supply finance to construction finance. Of course, later this change failed to be completed because of the influence of erroneous "leftist" ideas. Since the 3d Plenary Session of the 11th CPC Central Committee, the party has set forth new tasks, formulated new policies, invigorated the domestic economy and opened up to foreign countries, causing new situations, problems and experiences to emerge continuously and financial work to face another new change. This demands we further liberate our thinking, continue to eliminate "leftist" influence, break through outdated restrictions, change old customs, boldly reform and bring forth new ideas, sum up new experiences, blaze new trails and render better service to improve economic results and speed up the four modernizations. What kind of outdated old things do we need to change? For example, the traditional practices of "unified revenue and expenditures" and "eating from the same big pot" should be quickly changed; the traditional way that "the state is in charge of everything" should be quickly changed; and several long-pursued closed-door practices should be readjusted with the degree of maturity of their subjective and objective conditions. The problem is that they need to quicken their tempo in advance. If they do not change, various party economic policies will not be easily implemented, the enthusiasm of all sectors will not be fully aroused and the progress of the four modernizations will be affected. Therefore, this is not only an economic problem but also a practical problem. In the past, we failed to thoroughly understand this problem, our thinking was not liberated enough, we were not bold enough in work and our tempo was too slow. After this party consolidation, we must solve this problem once and for all.

Financial work holds an important position in economic work. Whether or not financial problems are solved properly has a vital bearing on economic stability and development. While discussing the basic point of view that the financial situation is determined by the economy, Comrade Mao Zedong also pointed out that the success and failure of financial policy can affect the economy. How can financial work clear the way and serve the vigorously developing new situation? This question is still being studied. In my opinion, the answer should contain at least the following four points:

- 1) Vigorously reform financial and tax systems to create conditions for the reform of the whole economic system and to closely coordinate reforms in other fields; 2) formulate correct financial policies that can help, not restrict and hinder various construction undertakings develop faster in the new situation and also help doing a good job in financial work; 3) strive to increase revenue to guarantee funds for the four modernizations; and 4) do a good job in financial work and overall balances, play the role of an overall promoter and restrainer and ensure that the national economy develops soundly and smoothly. In sum, many things need to be done. We must listen to the opinions of all fields and strive to do what is possible given the condition of the state's financial resources.

2. Pay attention to the methods of money management and enable the Ministry of Finance to become the state's administrative and management department.

The Ministry of Finance is a general department. Through its work, it plays the role of reflecting, promoting, regulating and restricting the national economy. In the party consolidation report, the CPC Central Committee pointed out that the Ministry of Finance should learn the methods of money management including ways to create, accumulate and use money and become the state's administrative and management department. This explains that the CPC Central Committee has set forth a higher demand on financial work and that the Ministry of Finance should become an administrative and management department instead of a department that receives and pays out paper money. Financial, tax and accounting departments at all levels should conscientiously study and implement this guiding ideology.

To make a success of the state's financial management, we must establish healthy economic and policy viewpoints and a long-term point of view and overcome the one-sidedness of judging the financial situation as it stands. While studying and handling problems, we should give vigorous support to whatever is conducive to developing production, increasing the economic results of society, implementing party policies and the long-term and overall situation. We should not refuse to take them into consideration because of temporary difficulties, losses or gains. Of course, we should do what we are capable of. We can use a variety of methods and mobilize the forces of all fields to help make us succeed. In day-to-day work, instead of considering only financial receipts, disbursements and management, we should pay more attention to studying some questions concerning production, enterprise management and administration and ways to make the state rich and prosperous. We should discuss and concentrate on important matters and be good at devising strategies. This is the only way to bring the role of a general department into play. With regard to the method and style of work we should pay attention to communicating and consulting with the departments concerned and handle contradictions and solve problems under the prerequisite of benefitting the four modernizations, making overall plans and taking all factors into consideration.

How to do a good job in making, accumulating and using money is a very complicated matter. We should sum up experiences in practice and find some rules. In my opinion, making money is a foundation which determines the scale and level of money accumulation and utilization. Money accumulation should be oriented to money utilization. Attention should also be paid so that money accumulation would be conducive and not harmful to making money. Money utilization should focus on rational distribution, proper utilization and yielding more returns with less investment to make more money in the future. If we can properly handle the dialectical relations among the three, we can form a benign circle, continue to consolidate and develop the state's financial situation, guarantee the needs of socialist construction and gradually improve the material and cultural living standards of the people. Judged from the current situation, as far as money making is concerned, we should vigorously accelerate the development of productive forces, increase the economic results of all fields and engage in economic exchanges with foreign countries through implementation of correct financial policies, the rational distribution of funds and management of state revenues and expenditures. We should also pay special attention to enterprise management and

administration and the work of increasing profits and reducing deficits, vigorously develop financial resources and stop loopholes to bring about a relatively large increase in state revenue. As far as money accumulation is concerned, we should rationally readjust the distribution policy in accordance with the principle of "three considerations," [0005 0369 7357] control and reduce financial subsidies and appropriately levy some new taxes to centralize necessary funds to guarantee the state's key construction projects. Overdecentralization of funds is harmful to economic construction. The CPC Central Committee had demanded we properly increase the proportion of state revenue in national income and the proportion of central revenue in national revenue. We should achieve this after several years of efforts. As far as money utilization is concerned, the key is to make proper arrangements and make good use of limited, hard-earned money in accordance with rational economic proportions. We should improve ways of using money, properly delegate power to lower levels and do a good job in managing and utilizing money under the guidance of a state plan. We should do more and better with less money and avoid serious loss and waste resulting from bureaucracy. The economic responsibility system should be established also for spending. Financial departments should not be allowed to make appropriations without considering their results. Units which spend money must provide results out of limited funds. We should understand that we cannot do anything without money, but if we have money and fail to use it properly, we still cannot have anything done. We should be cautious and efficient when we spend money for it is also a major discipline of learning. We should pay attention to summing up experiences and lessons and learn the methods of money utilization.

To make a success of administrative and managerial work, financial departments, in addition to continuing to adopt administrative and legal means, must learn how to use the means of economic regulations such as charging the use of capital construction appropriations, using taxes as economic levels, adopting some expenditure contracting systems, reforming the financial system and delegating power to lower levels. This is to arouse the enthusiasm and initiative of the departments concerned while guiding them to spend money in accordance with the needs of society and do a better job. The second step we are now taking in substituting the tax payment for profit delivery is an obvious example.

3. Adhere to the principle of combining relaxation with strictness and quicken the tempo of financial reform.

Since all fields are carrying out reforms, we need a correct guiding principle. When we reported on financial readjustment and reform, the CPC Central Committee clearly pointed out that financial reform should adhere to the principle of combining relaxation with strictness instead of chanting the general slogan about unleashing. Some rules need to be unleashed and relaxed; other should be enforced strictly instead of being unleashed, depending on different circumstances. But we must be able to clearly distinguish those which should be relaxed from those which should be strictly enforced. Those which are conducive to accelerating production development, developing the economy and increasing financial resources should be relaxed;

those which are conducive to safeguarding financial and economic disciplines, reducing waste and preventing malpractices should be enforced strictly instead of being relaxed. This should be considered a guiding principle for the future readjustment and reform in financial departments. I believe that this guiding principle is suitable not only for financial departments but also for other departments.

In financial reform, we should also properly handle the relationship between macrocosm and microcosm. We should vigorously study ways to exercise proper control over macrocosm with emphasis on the word "proper" and ways to enliven microcosm with emphasis on the word "enliven." If we fail to properly handle the relationship between macrocosm and microcosm--either fail to enliven microcosm or lose control over macrocosm--we will cause losses to the state.

Financial reform covers many respects and needs to be carried out in an active but cautious manner. In addition to small-scale reforms, we plan to carry out 10 reforms on a larger scale in 1984 and 1985. 1) We will adopt the second step in substituting tax payment for profit delivery, further expand enterprises' decision-making power and eliminate the traditional practice of enterprises eating from the "same big pot" of the state. 2) We will streamline administrative organs, decentralize power and, on the basis of completing the second step in substituting tax payment for profit delivery, further reform the system of financial management and solve the problem concerning the financial relationship between the central and local governments. 3) We will adopt policies that encourage technological progress and several reform measures such as raising enterprises' depreciation rates and properly relaxing tax policies to support the technological transformation of existing enterprises. 4) We will conscientiously implement the open policy and adopt measures to relax tax policies concerning foreign nationals and to support the construction of infrastructure in 14 coastal cities. 5) We will substitute loans for capital construction appropriations across the board, charge the use of funds and vigorously implement, on a trial basis, such systems as investment contracts and inviting and making bids for engineering projects. 6) We will restructure the financial and tax systems of rural areas, establish financial departments at the township level and support agricultural production and the development of small towns. 7) We will reform the fund supply system of administrative units and institutions and change the traditional practice of the state taking care of everything so as to arouse the enthusiasm of all fields for increasing income, economizing on expenditures and running business in a variety of styles. 8) We will reform the method of control over the purchasing power of social organizations. 9) We will properly readjust the items of key energy and communications construction funds and self-financed capital construction taxes. 10) We will draw up a comprehensive financial plan, balance funds of all fields and make all-around arrangements with due consideration for all concerned. According to the development of the situation in the future, we will probably add some reform projects.

In addition to doing a good job in their own reforms, financial departments should also vigorously coordinate with reforms in other departments,

especially some major reforms such as price and labor wages. They must cooperate with others in research, balance accounts carefully, make suggestions and help others fulfill their tasks. This is conducive to the situation as a whole.

4. Strive to increase income and economize on expenditures to bring about a fundamental turn for the better in the financial situation.

Establishing a regular, stable and balanced financial system is an important condition for the four modernizations as well as an objective requirement of financial reform. The three questions we mentioned above revolve around a target that must be attained in the near future. This is to achieve a fundamental turn for the better in the financial situation after several years of efforts and to double state revenue in the 1980-90 period so as to guarantee fund supply for the four modernizations. This is a glorious and arduous task confronting us.

Generally speaking, achieving a balance between revenue and expenditures is an important sign of fundamental improvement in the financial situation. Judged by past experiences, we can achieve a balance under two conditions. When state revenue increases by a relatively large margin on the basis of continuous development in production and marked improvement in economic results, we can make rational arrangements for all expenditures in accord with the principle of doing one's best according to his ability, thus guaranteeing the need of state construction and gradually improving the people's living standards. (Judged by historical experiences, proper arrangements must be made of the scale of capital construction; otherwise, it will make great impact on all fields.) Under this condition, we can achieve a temporary or basic balance between revenue and expenditure. The first balance is achieved under the condition of economic growth and financial stability whereas the second is achieved under the condition of economic depression and financial instability. We should strive to achieve and maintain the former for a long time and avoid the latter. We are glad that we are now developing along with a stable and sound balance.

Can we deny that the financial situation is taking a fundamental turn for the better because there is a small deficit? This needs concrete analysis. Our basic policy is against the practice of deficit budgets. It seeks to achieve a balance between revenues and expenditures with a little surplus (namely, to gradually build up needed reserve forces.) Long-term practice of deficit budgets is extremely harmful to economic development and the stability of the people's livelihood because it can cause inflation and price increases. However, in order to race against time and speed up socialist construction during a certain period of time or under certain conditions, borrowing some money or having a small deficit is not that terrible either. The problem is that it needs to be controlled within a proper range so that should anything go wrong, it can be dealt with. Of course, we must not become blindly optimistic and ignore difficulties. We should be very cautious in handling everything and focus on solving basic problems. In my opinion, the key to the fundamental turn for the better in the financial situation is economic revitalization. If we can basically coordinate economic

relations, make fairly big progress in economic reform, substantially change the quality of enterprises, make new progress in modern technology, maintain continuous and stable development of industrial and agricultural production, substantially increase economic results and greatly improve the people's living standards, we can lay a solid foundation for the fundamental turn for the better in the financial situation and to consolidate the balance between revenue and expenditures. Even if we have some deficits in some years, it would not make any difference to the reality of the fundamental turn for the better. We should develop the superiority of socialist system, go all out to make the country strong, boldly carry out innovations and strive to promote the national economy and bring about a fundamental turn for the better in the financial and economic situation.

5. Do a good job in the overall balance of financial resources and use the general financial resources of the state to guarantee the realization of the general task of the four modernizations.

Leading comrades of the central government have asked us to widen our field of vision and the range of financial management, saying that when we make financial plans, we should take into account not only central revenue but also the financial resources of the whole society which include the financial resources of the central and local governments, enterprises and the people and foreign funds that are available. This directive of central leading comrades have pointed out a clear direction for our planning work. How to study and use all financial resources of society to guarantee the financial needs of the four modernizations is an important task.

Currently, the actual condition is: The state's budgetary annual income is over 120 billion yuan, extrabudgetary funds amount to some 90 billion yuan and banks' credit funds increase by more than 30 billion yuan a year, about 250 billion yuan in all. Foreign loans add up to several billion yuan a year. Financial and labor investments by rural people also add up to a very large figure. Under this condition, if we only consider the state's budgetary funds, we will not be able to see the whole picture when we formulate national economic and social development plans and study ways to arrange, distribute and use investment. The only way to solve this problem is to establish a general state financial plan, estimate financial resources of the whole society through the plan and conduct overall balancing and make all-round arrangements with due consideration for all concerned. Because the nature and purpose of different funds are different, their management methods should also be different. We can make plans and arrangements for funds under the direct control of the state. As for extrabudgetary funds and the financial resources of the people, we can make suggestions concerning orientation and guide them to be used where they are most needed in the four modernizations. In this way, all funds can supplement, coordinate and support each other and therefore can be used effectively. This is also a way to mobilize the people of all nationalities in the country to develop great socialist undertakings.

6. Adhere to the mass line and rely on everybody's financial management.

Financial work is closely related to the work of all sectors. It is closely bound up with everybody. Revenue and expenditure tasks rely on our cooperative efforts to be fulfilled. Therefore, to do a good job in financial work, we must establish a firm mass viewpoint, resolutely follow the mass line and, under the leadership of the party, rely on the support of all regions, departments, units and the broad masses of the people to overcome difficulties, increase income, economize on expenditures and guarantee the needs of construction. To rely on everybody in financial management, first we should conscientiously solve the problem of enterprise eating from the "same big pot" of the state, and the problem of staff and workers eating from the "same big pot" of enterprises in regard to the distribution system. We should gradually separate government administration from enterprise management, get rid of unnecessary administrative intervention and create necessary conditions for solving the two "big pot" problems. As far as we are concerned, financial departments at all levels should pay attention to promptly informing us of the financial situation and existing problems. When formulating financial policies and various laws and regulations, they should conduct more investigations and studies and listen to the opinions of all fields. When restructuring financial and economic systems, they should pay attention to linking mass interests with work results to arouse the enthusiasm for relying on the masses and practicing democratic financial management. As long as we all show concern for production, results, income and economy, the state's financial situation will soon take a turn for the better, the interests of localities, departments and the masses will increase accordingly, both the state and the people will be rich and everybody will be happy.

12302

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FINANCE AND BANKING

METHODS FOR REFORMING PRICING SYSTEM DESCRIBED

Beijing JINGJINXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese 28 Jan 85 p 3

[Article by Jia Ge [6328 2706]: "Reform of the Pricing System: Conditions, Principles, Steps, and Methods"]

[Text] The establishment of a rational pricing system is an important component in the CPC Central Committee's restructuring of the economic system. Not only is this an economic problem but it is a significant political problem. We must have resolve and confidence and must recognize the difficulty and complexity of price reform. We must proceed from reality, and based on the development of our production, financial resources, material resources and other objective factors, plan carefully, act according to our capabilities, proceed in an orderly fashion and gradually do a good job in the reform of the pricing system. Below, I will express my views on the problems with the conditions, principles, steps, and methods involved in the reform of the pricing system.

Conditions

There must be a few fundamental conditions in pricing reform, and at the present time we basically possess the following conditions: 1) After being adjusted for the past few years, our national economy has entered a benign cycle of steady increase. Production has developed fairly quickly, especially in agriculture where there have been successive bumper harvests for the past few years. The main proportionate relationships in the national economy have been coordinated. The forecast is for the economic situation to improve with each passing year. 2) China's financial situation has fundamentally improved. Revenue has been increasing year by year: in 1980, revenue was 1.81 billion yuan less than the year before; in 1982, revenue increased 430 million yuan compared to the year before; in 1983, revenue increased 3.45 billion yuan. The increase in revenue in 1983 was particularly large, and in 1984, the rate of increase of revenue exceeded the rate of increase of the gross value of industrial and agricultural output. State revenue and expenditures are nearly balanced, and there is a fairly large amount of foreign exchange in reserve. 3) The production of marketable consumer goods has increased at a fairly rapid pace, and there is an overall balance between the amount of goods that can be supplied and society's purchasing power. We have an ample supply of both farm produce and sideline

products and light industry and textile goods on the market. 4) Recently, the state has organized a large amount of human and material resources to carry out a survey and analysis, found a direction for price reform and has provided an important basis for drawing up a price reform plan. 5) The overall plan for the restructuring of the national economic system has already taken shape. Measures for the reform of planning, goods and materials, wages, finances, credit and tax revenue have been coordinated and are soon to be implemented. 6) In the past few years, after extensive discussion, we already have a unified understanding of the necessity and urgency of price reform in China's economic theoretical circles and among economists, and China already has a certain amount of experience with price reforms. In addition to the aforementioned favorable conditions, there have also been great improvements with regard to social public order, and unstable factors have largely been eliminated. A politically stable and unified situation has already been formed. In short, the conditions for price reform are gradually ripening and will continue to improve.

Principles

Price reforms are related to many things in many ways, and we definitely must draw up a practical and feasible plan and carry it out step by step and in a planned way. Based on "Resolutions Concerning the Restructuring of the Economic Management System" of the Third Plenum of the 12th CPC Central Committee, we must pay attention to the following principles in the process of reforming prices: 1) According to the demands of the exchange of equal values and changes in the relationship between supply and demand, we must adjust irrational price parity relations and must raise and lower prices as necessary. 2) At the same time as raising the prices of a number of mineral products and raw and processed materials, processing enterprises must tap their own potential, try in every possible way to lower energy consumption and cause expenditures due to higher prices and increased costs basically to be absorbed within enterprises. They should cause a few pricing problems to be resolved by reducing the state's tax revenue so as to avoid raising the consumer prices of industrial goods. 3) At the same time as solving the problem of upside-down purchasing and selling prices of farm produce and sideline products and raising the prices of industrial consumer goods, we must adopt practical and feasible measures and ensure that the actual income of urban and rural residents does not drop due to adjusted prices. In addition, workers' wages must continually rise along with the development of production and the improvement of economic results. 4) In price reform, we must control the rate of increase and decrease of market prices in a planned way and avoid causing violent price fluctuations. 5) In price reform, we must implement the principle of high prices for outstanding quality. We must charge high prices for high quality and name-brand products and low prices for products of inferior quality, have different prices for differences in quality and promote a rise in the quality of industrial and agricultural products. 6) Price reform must be coordinated with the reform of wages, tax revenue, interest rates, finances, planning and goods and materials, and the reforms must advance synchronously.

Steps

People still have a different understanding of the key to and breakthrough point of price reform. Currently, there are basically three different understandings of the steps of price reform in China's economic circles and among China's economists: The first idea is that we first reform the prices of the means of production and later reform the prices of the means of subsistence. The second idea is to first reform the prices of the means of subsistence and later reform the prices of the means of production so as to solve the problem of price subsidies. The third idea is to adjust prices according to the relationship between supply and demand, raise the prices of products in short supply and lower the prices of products in abundant supply. These three ideas have their pros and cons, and we must integrate the actual circumstances to comprehensively consider the issues, and advance step by step and in a planned way.

Methods

The methods of price reform are directly related to the results of price reform. In the past few years we have mainly adopted the following few methods with regard to price reform: 1) In a planned way we are adjusting the state's formulation of planned prices and raising and lowering prices as necessary. This is the main way to realize a rational price structure. 2) We are gradually reducing the number of the state's fixed prices and expanding the number of products with floating prices and negotiated prices. The state is no longer controlling the prices of some products; instead, the prices are subject to market adjustments. 3) We are reforming the single form of price control and are implementing the relatively flexible pricing form of regarding planned prices as primary. 4) At the same time as raising prices, we are raising wages, and particular things will improve with the improvement of the general situation. 5) We are adjusting the limits of price control, expanding the authority of localities at all levels to control prices and giving enterprises a certain authority to fix prices.

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FINANCE AND BANKING

PROBLEMS OF, APPROACHES TO PRICE REFORM DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 3 Dec 84
p 3

[Article by Zhang Zhuoyuan [1728 0587 0337]: "Economic Reform Will Be Smooth Sailing Once We Get through Price Reform"]

[Text] By now, we have already clearly determined that the socialist economy is a planned economy that is based on public ownership and that we must consciously abide by and employ the law of value. Thus, while upholding the principle of a planned economy, we must organize socioeconomic activity in accordance with the principles of the commodity economy and greatly increase the position and role of prices in society and the economy. Commodity production presupposes commodity circulation, which cannot be separated from the market and its function. Utilization of the market mechanism in the planned economy, the spontaneous regulation by the market outside of the planned economy and the development of socialist competition all can only be achieved through the use of prices and price movements and require reform of the present irrational price system.

The World Bank's "1983 Report on World Development" made the following appraisal of the relationship between price deviations (or distortions) and economic growth: Countries that had relatively large price deviations (the highest one-third of all countries) showed economic growth rates that were approximately 2 percent lower than the world average, whereas countries that had small price deviations (the lowest one-third of the countries) enjoyed growth rates that were about 2 percent higher than the world average. The World Bank also noted that differences in economic growth rates are due to many factors and cannot be explained only in terms of natural-resource endowment and that we must also take into consideration other economic, social, political and systemic factors before we can fully explain the problem. Nevertheless, price deviation does account for about one-third of the variance.

In our experience, price deviations inevitably create a great oversupply of high-priced goods and shortages of low-priced goods, which leads to irrational allocation of social labor and impeded coordinated sectoral development. Skewed prices also sow misinformation with respect to production, technological transformation, the use of product substitutes and

consumption, which creates serious waste of social labor. Obviously, the rationality of the price system has an important effect on socioeconomic development. Prices are a most effective economic lever and an indicator of production and consumption. In a commodity economy, a rational price structure ensures maximum efficiency in resources (natural and social) utilization, creates a rational productive structure and ensures maximum economy in social consumption, which means that rational prices enable us to use the least amount of natural resources and labor and yet to fully meet people's growing material and spiritual needs. In a word, rational prices enable us to achieve the best socioeconomic results. Once the test of price reform is passed, the reform of the economic system will be smooth sailing, and China's own form of socialism will finally be firmly established.

Current Prices Are Like a Distorting Mirror, Create Unequal Hardship and Advantage for Enterprises and Make it Difficult To Distinguish the Good and the Bad Only Through Reform Can the Advanced Be Encouraged, the Backward Be Prodded and Everyone Induced To Put Full Effort Into Steadily Improving Economic Results

Prices are a social valuation of labor and the fruits of labor. At the present stage, we still cannot directly use labor time to evaluate economic activity and the results thereof and thus must rely on prices.

Nevertheless, in terms of their ability to reflect expenditure of social labor, current prices resemble a "distorting mirror." Although product labor expenditure and managerial levels may be similar, some prices are very high, while others are very low, such variance enables some enterprises or departments to earn large incomes and profits and high profit rates, while other enterprises or departments receive low incomes, profits and profit rates. Thus the amount or rate of profit received by an enterprise or department is not a very good indication of the managerial skill or employee work effort of that unit, which makes it very difficult to tell whether that unit is advanced or backward, to correctly and effectively encourage the advanced and prod the backward and to induce everyone to put full effort into steadily improving the effectiveness of economic activity.

The irrationality of the current price system is manifested in the following areas.

1. Price differentials for product quality are too small.

The failure to provide price differentials for quality in the past has seriously impeded improvement in product quality. In October of last year, the State Council ordered that quality price differentials of 5 to 15 percent be permitted for similar types of products, but it appears that this range may still be too narrow and that there is insufficient differentiation among quality grades. Meanwhile, in many cases even this narrow range has not been fully effected.

2. Prices for energy and raw materials are generally too low, whereas prices for manufactured goods are usually too high, which is not conducive to the rational readjustment of the industrial structure.

The costs of centrally produced and distributed coal exceed prices therefore, there was a loss of 870 million yuan last year and 67 percent of all key coal mines directly subordinate to the central government failed to earn a profit. Prices for concentrated iron ore, pig iron, wood, cement and other products were all too low, while prices for manufactured goods were generally too high. For example, funds used in iron-ore extraction earn a profit rate of only 5 percent, while those used in the production of some rolled-steel goods obtain returns of 20 to 30 and sometimes even 60 to 70 percent. In 1982, the metallurgical industry showed a fund profit rate of 8.1 percent, the electric-power industry earned a rate of 16 percent and the chemical industry, a rate of 25.6 percent.

Due to high and low price distortions, goods that are in great demand in many markets cannot be produced in greater quantity because of low profits, whereas production of high-priced goods is blindly increased, which leads to oversupply. Irrational prices are also a major cause of redundant construction and inflated investment. This fact is not conducive to the rationalization of the industrial structure.

3. The reverse gap between the purchase and sales prices for grain and other major agricultural produce has increased the state's fiscal burden.

Since 1979, the state has greatly increased purchase prices for grain, cotton and other agricultural and sideline-industry products but has not made corresponding adjustments in the sales prices therefore. This has caused a reverse gap between purchase and sales prices, which means that the latter are lower than the former. On average, the state provides peasants with a subsidy of 0.10 yuan for each jin of grain and 0.80 yuan for each jin of cooking oil produced, and with growing agricultural production, the state's subsidies are also rising. For example, subsidies for grain oil, meat, eggs and other nonstaple foods rose from 4.6 billion yuan in 1978 to 16.6 billion yuan in 1982 and 18.6 billion yuan in 1983, an increase of more than 3-fold. This situation cannot persist for long, and the reverse gap has contributed to the "difficulty in buying" and "difficulty in selling" problems and impedes commodity circulation.

4. The scissors differential between prices for industrial and agricultural products still persists, and price parities among agricultural goods are irrational. The large price hikes for agricultural produce since 1979 have greatly reduced the price scissors between industrial and agricultural goods, and recently the general level of agricultural prices has become fairly rational. Yet the scissors differential still persists, so we must continue our readjustment in accordance with developing and changing conditions in industrial and agricultural productivity and within the limits of the state's financial and material resources. Each person's estimate of the size of the scissors differential varies, but initial estimates suggest that industrial prices are overvalued by more than 10 percent, and agricultural prices are undervalued by the same amount.

In addition, price parities among agricultural goods are not very rational, either. Grain, for example, is underpriced, whereas cotton is overpriced, and farmland area devoted to cotton is expanding too rapidly. Purchase prices for tobacco and hemp are also too high, and some prices for special local products and medicinal herbs are too high, others too low. And on it goes.

5. Prices for communications and transport, public utilities and many service industries have rarely been readjusted in the past few decades, fees and profits in these areas are too low, and some of these areas survive only through reliance on subsidy.

With the rise in wages and expenses (including increases in the number of retired workers and staff members), these industries have had to bear increasingly heavy burdens, many enterprises have seen what little profit they used to earn turn to red ink and employee benefits in these industries are poor and hard to improve. Failure to improve these industries will make it difficult to expand employment opportunities and will greatly inconvenience the people in their daily lives.

6. Housing rents are too low, and thus the state's burden grows as more and more urban housing is built.

In recent years, the state (including enterprises and collectives) has invested about 10-odd billion yuan a year (1.7 billion yuan in 1982) for housing construction, and yet rent income in 273 cities totals only about 500 million yuan, which covers only one-fourth of all administrative and maintenance expenses. Thus, as a commodity, housing reproduction cannot be expanded, and indeed it is difficult merely to maintain simple reproduction. This situation seriously impedes resolution of the housing problem.

From the above, it is apparent that the irrationality of the price system primarily shows up as irrational prices and that prices have become seriously divorced from value, or the latter's transformation, production prices. There are many reasons to be concerned, and prolonged failure to resolve price problems will make it hard to readjust economic relationships, will seriously affect coordinated economic development and will create many difficulties and much chaos in economic life.

We Should Commence Our Reform With the Prices of the Means of Production That do not Have a Very Direct Effect on Consumer Prices, and We Should Be Very Cautious With Respect to Reform That Might Affect Market Prices. Wages Must Be Increased at the Same Rate as Price Hikes so as To Ensure That People's Living Standards do not Decline but Rather Increase.

It appears that our future reform should be conducted in three areas. The first area should involve reform of industrial producer prices and focus on increasing the prices of energy sources and minerals. This reform would also include increases in transport charges and readjustments of wood and building-material prices, water and urban-land fees and producer prices in

raw-material and processing industries. The second area should involve reform of the links in the chain of circulation, focus on resolving the problem of the oversubsidization of consumer prices and include increases in housing rents and prices for agricultural means of production. And the third area should involve reform of purchase prices for agricultural products and be centered around readjustment of grain prices.

I believe that we should abide by the following principles in our future reform of the price system.

First, basic market-price stability must be maintained during the reform in order to ensure a stable economy and coordinated economic development. In the future, there will be a certain increase in prices generally, but we should set annual limits for that increase and find a safety line which we should strive not to exceed. I believe that line should be an average annual price increase of 2 percent. Even at this rate of increase, we must still try every measure possible to ensure that the people's standards of living do not decline but rather increase. In future reform, we must both readjust price parities and maintain basic price stability, which means that the reform of the price system will require a long period of time to complete and cannot be achieved in one step. Price problems affect tens of millions of families and are closely related to the people's economic interests. This reform must be implemented one step at a time and with proper and full preparations. For the moment, as we complete these preparations, we should strive to create proper conditions and adopt the positive attitude that we can complete the reform a little more quickly. Meanwhile, we should carefully select our points of attack, preferably beginning with the prices of the means of production that do not have a very direct effect on consumer-good prices and being especially cautious with regard to reform that would affect market prices, conducting this in stages, by group and in small amounts. In this fashion, we can avoid disrupting the market, reassure people and build small reforms in a large reform. Although this approach would require a little longer to achieve, it would not amount to prolonged procrastination and would be safer and more reliable.

Second, price and wage readjustments must be carried out together. To ensure that workers' and staff members' (including retired employees) real incomes and living standards do not decline as a result of rising prices, we should do our best to formulate legislation providing for automatic readjustments. For example, we should stipulate that, if prices rise by a certain percentage, wages should be increased accordingly.

Third, the reform of the price system must serve to improve economic results and focus first on rationalizing price parities among all sectors and general product categories. Thus we must place special emphasis on bringing prices into line with value or with the latter's transformation, production prices, and we should not stress deviation between price and value. Only when price and value coincide can we accurately evaluate the results of the economic activities of enterprises and workers in each sector and region. Naturally, deviation between the price and value of some goods is permissible, even necessary. Some comrades believe that, since labor

productivity is undergoing continuous change--which means that product values are also changing, whereas prices are relatively fixed--price-value deviation is normal and coincidence, merely fortuitous and thus that we should not insist that prices be in line with values. I believe that price-value (or production price) coincidence should be made a principle. It is precisely because of the fact that product values are undergoing continuous change that we should insist that that change be properly reflected when planned prices are set. Otherwise, prices would gradually but seriously deviate from values, which would make it impossible to make accurate appraisals of goods and the labor expenditure required to produce those goods. In practice, we can implement floating prices or observe the price changes of products that are placed under the regulatory role of the market and thereby comprehend the changes in value of those products.

Fourth, reform of the price system must be coordinated with reform of the price-management system. In the past, irrational prices were directly related to irrational price administration and to overly rigid management. Thus, in some cases, reform of price administration will facilitate reform of the price system. For example, reform of the methods of managing agricultural prices will facilitate rationalization of parity prices among agricultural goods, and adoption of floating prices will promote rationalization of parity prices among industrial goods. I believe that, with the reform of the planning system and the gradual shift of emphasis from command planning to planned management (which is due to the recognition that the socialist economy is a planned commodity economy), floating prices will play an increasingly important role and may even become the most important type of price in China's price-management system.

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FINANCE AND BANKING

METHODS OF COMPUTING BONUS TAX DISCUSSED

Beijing SHANGYE KUAIJI [BUSINESS ACCOUNTING] in Chinese No 1, 10 Jan 85 p 22

[Article by Wang Bingduo [3769 3521 6995]: "How To Calculate Tax on Bonuses"]

[Text] The "Provisional Rules Governing Tax on Bonuses of State-Operated Enterprises" published on 28 June 1984 by the State Council stipulated: State-operated enterprises which used the awards funds to issue various types of bonuses should pay bonus tax. The Bonus tax is computed and levied by the excess progressive method of taxation. Tax shall be exempted for the total amount of bonus issued in the whole year not exceeding 2.5 months of the standard wages; the tax rate is 30 percent for the total amount of the bonus issued in the whole year exceeding the portion from 2.5 months to 4 months in standard wages, the tax rate is 100 percent for the total amount of bonus issued in the whole year exceeding the portion from 4 months to 6 months in standard wages; and the tax rate is 300 percent for the total amount of bonus issued in the whole year exceeding the portion from 6 months. For example, the total amount of monthly standard wages of a certain state-operated enterprise is 6,000 yuan and the total amount of bonus given out in the whole year comes to 48,000 yuan, how much bonus tax it should pay? According to the step-by-step computation method, we should: first compute the equivalent of the number of months of the standard wage in relation to the total amount of bonuses issued, $48,000 \div 6,000 = 8$ months. Then compute the bonus taxes of various classes payable respectively according to the different tax rates mentioned above. (1) The portion exempted from tax: $6,000 \times 2.5 = 15,000$ yuan. (2) The portion exceeding from 2.5 months to 4 months should pay bonus tax at the tax rate of 30 percent = $6,000 \times (4-2.5) \times 30$ percent = 2,700 yuan. (3) The portion exceeding from 4 months to 6 months should pay bonus tax at the tax rate of 100 percent = $6,000 \times (6-4) \times 100$ percent = 12,000 yuan. (4) The portion exceeding 6 months should pay bonus tax at the tax rate of 300 percent = $(48,000 - 6,000 \times 6) \times 300$ percent = 36,000 yuan. After that, the sum of the amount of tax payable under all schedules is the amount of bonus tax payable for the bonuses of 48,000 yuan given out. That is, $2,700 + 12,000 + 36,000 = 50,700$ yuan.

However, this way of computation involves more work. For the sake of simplification, the Ministry of Finance on 17 August 1984 issued a "Circular Concerning Related Question in Implementing the State Council's 'Provincial Rules Governing Tax on Bonuses of State-Operated Enterprises'" in which it

proposed the use of a quick computation method, namely: the amount of bonus tax payable = the total amount of bonuses issued in the whole year x applicable tax rate - the amount deducted from quick computation. a) For the amount of bonuses issued in the whole year that exceeded the portion from 2.5 months to 4 months in standard wages: the payable bonus tax = the total amount of bonuses issued in the whole year x 30 percent - 0.75 x the total amount of the monthly standard wages. b) For the amount of bonuses issued in the whole year that exceeded the portion from 4 months to 6 months in standard wage: the payable bonus tax = the total amount of bonuses issued in the whole year x 100 percent - 3.55 x the total amount of monthly standard wages. c) For the bonuses issued in the whole year that exceeded the standard wages by 6 months or more: the payable tax = the total amount of bonuses issued in the whole year x 300 percent - 15.55 x the total amount of the monthly standard wages.

How are the quick-computation deduction figures in the above formulas derived? Still using the total amount of monthly standard wages of 6,000 yuan as an example, the mathematical derivations are:

1. The amount of 24,000 yuan of bonuses issued in the whole year comes under this schedule indicating that the portion exceeds from 2.5 months to 4 months in standard wages, if all of 24,000 yuan is inclusively computed at the tax rate of 30 percent, then, the amount of tax excessively computed for the tax-exempted 2.5 months should be deducted. That is, $24,000 \times 30 \text{ percent} - (2.5 \times 6,000) \times 30 \text{ percent} = 24,000 \times 30 \text{ percent} - 0.75 \times 6,000$. The deduction figure of 0.75 represents the excessively computed amount of tax which is equivalent to the number of months in standard wages.
2. The amount of 36,000 yuan of bonuses issued in the whole year comes under this schedule indicating that the portion exceeds from 4 months to 6 months in standard wages, if all of 36,000 yuan is computed inclusively at the tax rate of 100 percent, then the tax-exempted portion of 2.5 months and the excessively computed portion of 70 percent (100 percent - 30 percent) of 1.5 months (4 - 2.5) should be deducted. That is, $36,000 \times 100 \text{ percent} - (6,000 \times 2.5 \times 100 \text{ percent} + 6,000 \times 1.5 \times 70 \text{ percent}) = 36,000 \times 100 \text{ percent} - 6,000 \times (2.5 + 1.05) = 36,000 \times 100 \text{ percent} - 3.55 \times 6,000$. The deduction figure of 3.55 represents the excessively computed amount of tax which is equivalent to the number of months in standard wages.
3. The amount of 48,000 yuan of bonuses issued in the whole year comes under this schedule indicating that the portion exceeds 6 months in standard wages, if all of 48,000 yuan is computed inclusively at 300 percent, then the tax-exempted portion of 2.5 months or 2.5 x 300 percent and the portion of 1.5 months or 270 percent (300 percent - 30 percent) and the portion of 2 months (6 - 4) or 200 percent excessively computed should all be deducted. This is, $48,000 \times 300 \text{ percent} - (6,000 \times 2.5 \times 300 \text{ percent} + 6,000 \times 1.5 \times 270 \text{ percent} + 6,000 \times 2 \times 200 \text{ percent}) = 48,000 \times 300 \text{ percent} - (7.5 + 4.05 + 4) \times 6,000 = 48,000 \times 300 \text{ percent} - 15.55 \times 6,000$. The deduction figure of 15.55 represents the amount of tax excessively computed is equivalent to the number of months in standard wages.

30 April 1985

FINANCE AND BANKING

CALCULATION OF BONUS TAX IN STATE ENTERPRISES EXPLAINED

Beijing ZHONGGUO SHUIWU [CHINA'S REVENUE] in Chinese No 1, 12 Jan 85
pp 28-29

[Article by Niu Jiabin [3662 6333 1367]: "The Method for Calculating the Bonus Tax in State-Run Enterprises"]

[Text] In order to implement the principle of bonuses "not getting out of hand," and in macroscopically controlling an increase in consumption funds that is too quick, the State Council decided to start to levy a bonus tax on state-run enterprises. The bonus tax is calculated by using different levels of tax rates progressively for that portion of the bonus that is above the quota. The current industrial and commercial income tax is also calculated by using different levels of tax rates progressively for the portion above quota, yet the methods for calculating the taxes are not the same. The industrial and commercial tax divides the amount of income into different brackets, uses a fixed rate for each bracket, and the specific method of calculation is to multiply the amount of income by the appropriate tax rate and subtract the coefficient that has been estimated, and the result is the tax that must be paid. The process for calculating this tax is fairly simple. The bonus tax of state-run enterprises is quite different. It does not merely divide the amount of bonuses into different brackets but uses the amount of bonuses that enterprises extend as a base, and based on the extent that it surpasses the standard wage, determines the bracket and determines the tax rate that should be paid. For example, if the total amount of bonuses that an enterprise pays does not exceed 2 months of standard wages, there is no tax on bonuses; annual bonuses that exceed 2.5 to 4 months of standard wages are taxed at 30 percent; annual bonuses that exceed 4 to 6 months of standard wages are taxed at 100 percent; and annual bonuses that exceed 6 months of standard wages are taxed at 300 percent. If an enterprise's standard wages are less than 50 yuan per worker, the tax is computed according to 50 yuan per worker. The way of calculating the tax is fairly complicated because each enterprise has its own standard wage and there is no fixed constant and there is no way to calculate a fixed amount to be deducted. Therefore, we cannot use the same method as we use to calculate industrial and commercial taxes but must adopt a different method of calculation. So,

how do we calculate this tax? Notice 193 (of 1984), Circular of the Ministry of Finance, made a regulation for the method of calculating the bonus tax, and that is to first determine a quick calculation deduction coefficient and then to calculate the amount to be deducted through this deduction coefficient. In accordance with the regulation, the deduction coefficients for each tax bracket are in the chart below.

Bracket 1: total annual bonuses not exceeding 2.5 months of standard wages: tax, rate, 0; quick calculation deduction coefficient, 0

Bracket 2: total annual bonuses that exceed 2.5 to 4 months of standard wages: tax rate, 30 percent, quick calculation deduction coefficient, 0.75

Bracket 3: total annual bonuses that exceed 4 to 6 months of standard wages: tax rate, 100 percent; quick calculation deduction coefficient, 3.55

Bracket 4: total annual bonuses that exceed 6 months of standard wages: tax rate, 300 percent; quick calculation deduction coefficient, 15.55

Thus, the quick calculation deduction coefficient and the bonus tax that must be paid can be figured out from the following formula:

The amount deducted equals the total standard monthly wages of enterprises multiplied by the quick calculation deduction coefficient; the bonus tax that must be paid equals the total amount of bonuses paid by the enterprise multiplied by the appropriate tax rate minus the quick calculation deduction coefficient.

The "deduction coefficient" listed in the chart is fixed. "The amount deducted" then changes with the increase in the standard wages of the enterprise. The formula for calculating the "quick calculation deduction coefficient" is:

The quick calculation deduction coefficient equals the highest number of months in the bracket multiplied by the bracket's tax rate minus (the amount of taxes that must be paid per month in that bracket multiplied by the bracket's tax rate plus the amount of taxes that must be paid per month in the next highest bracket multiplied by the tax rate of the next highest bracket).

According to this formula, the specific method for calculating the quick calculation deduction coefficient for each bracket is as follows:

First bracket: there is no tax if the total annual bonuses do not exceed 2.5 months of wages. The quick calculation deduction coefficient is "zero."

Second bracket: annual bonuses that exceed 2.5 to 4 months of total wages are taxed at 30 percent and the quick calculation deduction coefficient is:

$$4(\text{months}) \times (30/100) - 1.5(\text{months}) \times 30/100 = 120/100 - 45/100 \\ = 75/100 = 0.75$$

Third bracket: annual bonuses that exceed 4 to 6 months of total wages are taxed at 100 percent and the quick calculation deduction coefficient is:

$$6 \times 100/100 - (2 \times 100/100 + 1.5 \times 30/100) = 600/100 - 245/100 \\ = 355/100 = 3.55$$

Fourth bracket: annual bonuses that exceed 6 months of total wages are taxed at 300 percent and the quick calculation deduction coefficient is:

$$6 \times 300/100 - (2 \times 100/100 + 1.5 \times 30/100) = 1800/100 - 245/100 \\ = 1,555/100 = 15.55$$

The basis of this method of calculation is:

The quick calculation deduction coefficient of the second bracket is 0.75. The highest monthly limit in this bracket is 4 months, the tax rate is 30 percent, and calculating by the highest monthly limit, a bonus tax on 4 months is 120 percent (4×30 percent) of 1 month's standard wages. The monthly taxes that must be paid in this bracket are divided into a 1.5 month period (2.5 months to 4 months), the bonus tax that must be paid is 45 percent of 1 month's standard wages (1.5×30 percent), and the remaining 2.5 months are not taxed. Therefore, the quick calculation deduction coefficient is 0.75, i.e., ($120/100 - 45/100 = 0.75$).

The quick deduction coefficient for the third bracket is 3.55. The highest monthly limit in this bracket is 6 months and the tax rate is 100 percent. The bonus tax on 6 months is 600 percent ($6 \times 100/100$) of 1 month's standard wages. The portion of taxes that must be paid in this bracket includes: 1) 2 months taxed at the bonus tax rate of 100 percent, and the taxes that must be paid are 200 percent (2×100 percent) of 1 month's standard wages, and 2) a 30 percent tax rate on 1.5 months, and the total tax that must be paid is 45 percent (1.5×30 percent), of 1 month's standard wages. The remaining 2.5 months are not taxed and the deduction coefficient is 3.55, i.e., $6 \times 100/100 - (2 \times 100/100 + 1.5 \times 30/100)$.

The fourth bracket: the regulation for this bracket are that the tax rate is 300 percent if the annual bonuses exceed 6 months of standard wages, and there is no highest monthly limit. Therefore, the highest monthly limit is also 6 months. The bonus tax for 6 months is 1800/100 ($6 \times 300/100$) of 1 month's standard wages. The portion of taxes from the two lower brackets is subtracted, i.e., 1) the appropriate tax for 2 months is 100 percent and the total bonus tax is 200 percent ($2 \times 100/100$) of 1 month's standard wages, and 2) the appropriate tax rate for 1.5 months is 30 percent and the total bonus tax that must be paid is 45 percent.

(1.5 x 30 percent) of 1 month's standard wages, and the remaining 2.5 months are not taxed. Therefore, the quick calculation deduction coefficient is 15.55, i.e., $6 \times 300/100 - (2 \times 100/100 + 1.5 \times 30/100)$.

In short, the quick calculation deduction coefficient is calculated according to the principle of figuring the total amount of taxes progressively minus the difference by which the progressive tax is excessive. Yet because the progressive tax is divided into different brackets, the standard monthly wages of enterprises are used as a measure, and the standard monthly wages directly influence the different brackets of the bonus tax and the different tax rates. Thus, in calculating the entire amount, we pay close attention to the key of standard monthly wages and use standard monthly wages as a marker. We closely link together the total amount with the difference from the excessive amount of the progressive tax and so seek the deduction coefficient. We present the following examples based on the charts above for calculating the quick calculation deduction coefficient in the bonus tax.

Example One: a certain enterprise has 200 workers, standard annual wages totaling 132,000 yuan, average monthly standard wages of 11,000 yuan and gives bonuses totaling 61,600 yuan. The bonus tax that must be paid is computed as follows:

The amount of bonuses granted for the entire year amounts to 5.6 months of standard wages (61,600 divided by 11,000 = 5.6 months), and the tax rate from the third tax bracket is appropriate:

therefore the bonus tax that must be paid = $61,600 \times 100/100 - 11,000 \times 3.55 = 22,500$ yuan.

Example two: a certain enterprise has 200 workers and grants 61,600 yuan in bonuses for the year. The standard annual wages total 108,000 yuan and the average monthly wages work out to 9,000 yuan. The bonus tax that must be paid is computed as follows:

First, the standard monthly wages per person for an enterprise with 200 workers and standard monthly wages of 9,000 yuan is 45 yuan. In accordance with the regulation that the average monthly wage per person cannot be below 50 yuan, the monthly wage is calculated to 50 yuan. Thus, when calculating the bonus tax, the average monthly wages of 200 workers must be calculated as 10,000 yuan.

Second, the bonuses granted in 1 year total 61,600 yuan, which amounts to 6.16 months of standard wages (61,600 divided by 10,000 = 6.16 months), so the tax rate from the fourth tax bracket is appropriate.

The bonus tax that must be paid = $61,000 \times 300/100 - 10,000 \times 15.55 = 29,300$ yuan.

12436

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FINANCE AND BANKING

BONUS COMPUTATION METHODS DISCUSSED

Beijing SHANGYE KUALI [BUSINESS ACCOUNTING] in Chinese No 1, 10 Jan 85
pp 23-24

[Article by Xu Dacheng [1776 1129 2052] of Suzhou City Commerce Bureau:
"How To Compute the Amount of Bonuses To Be Issued"]

[Text] The State Council has stipulated that in issuing bonuses to workers and staff members, the state-operated enterprises should abolish the "ceiling" and implement bonus tax measures instead and that the payable bonus tax, fines and fines for delaying payment should be defrayed from the awards funds that enterprises draw from workers and staff members. The tax on bonuses is computed and levied in a fiscal year based on the actual amount of bonuses issued in the whole year and according to the excess progressive method. How much bonus tax should be paid for a certain amount of bonuses issued? The Ministry of Finance has answered this question by proposing the quick computation method in the "Circular Concerning Related Questions in Implementing the State Council's 'Provisional Rules Governing Tax on Bonuses of State-Operated Enterprises.'"

Prior to issuing bonuses, enterprises must all figure out how much in awards fund of workers and staff members can be drawn in the whole year and then, keeping in mind the limits of income, compute the maximum amount of bonuses to be issued in the whole year so as to facilitate the control of bonus issuance on a monthly or quarterly basis. Then, with the sum of the awards fund of workers and staff members that can be drawn from in the whole year, how do we compute the amount of bonuses to be issued in the whole year? A two-step computation method may be applied as follows:

The first step is to first figure out the equivalent of the number of months in standard wages in relation to the awards fund of workers and staff members that can be drawn from in the whole year. In other words:

The equivalent of the number of months in standard wages in relation to the awards fund of workers and staff members drawn in the whole year = the awards fund of workers and staff members drawn in the whole year ÷ the amount of monthly standard wages.

The second step is to compute the amount of bonuses to be issued according to schedule:

to schedules:

1. No tax shall be paid for the awards fund of workers and staff members drawn in the whole year that does not exceed 2.5 months in standard wages; the fund drawn may be totally used for issuing bonuses.

2. For the awards fund of workers and staff members drawn in the whole year that exceeded 2.5 to 4.45 months in standard wages, the following formulas may be used to compute the amount of bonuses to be issued in the whole year: The amount of bonuses to be issued in the whole year = (the awards fund of workers and staff members drawn in the whole year + 0.75 x the amount of monthly standard wages) ÷ 1.3.

Explanation: (1) This schedule shows the 30 percent bonus tax payable when the bonus to be issued in the whole year is equivalent to 2.5 to 4 months in standard wages. This schedule contains a total of 1.5 months, in other words, a bonus tax equivalent to 0.45 months of standard wages (1.5 monthly wage x 30 percent) should be paid, therefore, it is necessary to have an award fund of 4.45 months in wages before a bonus of 4 months in wage can be issued.

(2) The figure 1.3 in the formula is the sum total of bonus and bonus tax in this schedule. (3) The foregoing formulas are derived from the following methods of computation: The amount of bonuses to be issued in the whole year = the awards fund drawn in the whole year - payable bonus tax = the amount of bonus x 30 percent - 2.5 monthly wage x 30 percent, this is expressed in the above formulas algebraically:

The amount of bonus = awards fund - (the amount of bonus x 30 percent - 2.5 month-wage x 30 percent) = awards fund - 30 percent of the amount of bonus + 0.75-month wage.

Calculation by transposition: The amount of bonus + 30 percent of the amount of bonus = awards fund + 0.75 month-wage. (1 + 30 percent) the amount of bonus = awards fund + 0.75 month-wage. The amount of bonus = (awards fund + 0.75-month wage) ÷ 1.3.

3. For the awards fund of workers and staff members drawn in the whole year that exceeded from 4.45 months to 8.45 months in standard wages, the following formulas may be used for computing the amount of bonuses to be issued in the whole year:

The amount of bonuses to be issued in the whole year = (the awards fund of workers and staff members drawn in the whole year + 3.55 x the amount of monthly standard wages) ÷ 2.

Explanation: (1) For bonuses issued in the whole year that exceeded from 4 months to 6 months in standard wages, a 100 percent bonus tax should be paid. This schedule contains a total of 2 months, in other words, a bonus tax equivalent to 2 months of wage should be paid, in addition to the bonus tax payable in the preceding schedule, a bonus tax of 2.45 months of wage is payable, it is, therefore, necessary to have an awards fund of 8.45 months of wages before a bonus equivalent to 6 months of standard wage can be issued.

(2) Figure 2 in the formulas represents the sum total of bonus and bonus tax in the third schedule. (3) The method of derivation of the formulas is same as the foregoing.

4. For awards funds of workers and staff members drawn in the whole year that exceeded 8.45 months of standard wages, the following formulas may be used to compute the amount of bonuses to be issued:

The total amount of bonuses to be issued in the whole year = (awards fund of workers and staff members drawn in the whole year + 15.55 x the amount of monthly standard wages) \div 4.

Explanation: A 300 percent bonus tax should be paid when the bonuses issued in the whole year exceeded 6 months of standard wages, in other words, it is necessary to have 4 yuan of awards fund before 1 yuan of bonus can be issued. Since the three preceding schedules have to pay an equivalent of 2.45 months of the amount of wages, this schedule must have an awards fund exceeding 8.45 months of standard wages before a bonus in the amount computed according to this formula can be issued.

Examples for verification: Supposing the monthly standard wages of a certain enterprise is 6,000 yuan, and according to the correct calculation of the financial plan, 52,200 yuan of awards fund of workers and staff members can be drawn in the whole year, how much in bonuses should be issued in the whole year?

The first step is to compute the equivalent of the number of monthly standard wages in relations to the awards fund drawn in the whole year: $52,200 \div 6,000 = 8.7$ months.

The second step is to use the foregoing four formulas to compute the amount of bonuses to be issued in the whole year: $(52,200 + 15.55 \times 6,000) \div 4 = 36,375$ yuan.

Then use the quick-computation deduction method to compute the bonus tax payable and for verification:

$36,375 \times 300 \text{ percent} - 15.55 \times 6,000 = 15,825$ yuan; $36,375 + 15,825 = 52,200$ yuan.

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FINANCE AND BANKING

ACCOUNTING FOR JOINT VENTURE PROJECTS DISCUSSED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 1, 20 Jan 85
pp 30-31

[Article by Ni Chun [0242 4783]: "Problems in Reporting the Final Accounts of Domestic Joint Venture Construction Projects"]

[Text] With the restructuring of the state economic management system in the past few years, a few economic joint ventures have begun to appear in China, and the number of capital construction projects jointly arranged by responsible departments of the central government and localities (hereafter called joint venture projects) gradually have increased. These capital construction projects perform joint construction for the responsible departments of the central government and localities, help draw the financial and material resources of the responsible departments of the central government and localities for construction that is urgently needed by the state, give better play to the superiorities of the economy, improve economic results and accelerate the pace of construction.

In order to strengthen the financial management of these joint venture projects and comprehensively reflect the investment results of joint venture projects, in 1982, the Ministry of Finance and the People's Construction Bank of China issued Notice 849 of Construction Announcement 82, and made specific regulations concerning the problem of reporting the final accounts of joint venture projects. The notice required that "the yearend accounting of joint venture projects be presented to higher levels according to the subordinate relationships of the investment (the final accounts of units are simultaneously reported to each party of the joint venture). Any investment allocated by responsible departments must be handled as 'other appropriations--investment of the responsible departments of the central government', and quotas handed down to lower levels should be handled as 'appropriations of the current year's budget, including allocations in the central government's budget for the current year'. The investment of the current year should be handled as 'allocations of the budget of the current year, including allocations in the budgets of localities for the current year'. The yearend accounting presented to higher levels by the construction banks of the responsible departments of the central government and localities is reported according to the respective amount of investment of the responsible departments of the central government and localities,

and the parties using the funds can be classified according to the proportion of their investment." After 2 years of practice, the following two problems have appeared in the actual implementation of this regulation.

First, the procedures are overelaborate. Two final accounts must be worked out for joint venture projects: one account must be reported for the responsible departments of the central government and one for localities. According to the current regulations of the capital construction accounting system, five accounting report tables must be worked out for the yearend accounts of construction units, namely "balance of funds table", "table for other investment", "itemization of investment to be apportioned", "itemized table of investment that is canceled after verification and transferred" and "table for special funds"; joint venture projects must then work out 10 reporting tables. After the responsible departments of the central government and localities report the final accounts of their joint venture projects, because the investment results reflected in the final accounts include the investment of the central government and the localities, in order to give the same story of the budget, they must reject the budget of the other side (the central government or localities) and report according to the amount of their respective investment. This way, we have created a problem: with regard to the table for balancing funds that are reported by the joint venture projects, the source of funds is reflected by the investment of the central government and localities respectively, and thus it can be clearly differentiated. However, the use of funds is not reflected according to the respective investment of the responsible departments of the central government and localities, and it is also difficult to differentiate in the actual process of implementation. Thus, it is most difficult to make a clear distinction. According to the current regulations, we need only adopt the method of making a division according to the proportion of investment. Handling it this way creates a lot of trouble for the work of the responsible departments of the central government and localities in collecting final accounts and increases the amount of work a great deal. Furthermore, because construction banks in which joint venture projects have opened accounts must manage the budgetary allocations and balance accounts for the central government and localities respectively on two different levels and must also handle the inspection and certification tasks of the final accounts, this imperceptibly increases the work procedures by a certain amount.

The second problem is that the methods are not scientific. With regard to joint venture projects, the financial relations and management of funds of both sides must be dealt with, namely the relevant departments of the central government on a higher level and the localities on a lower level, and a situation must be formed in which two "mothers-in-law" manage one project. Because the requirements and specifications of both sides for reporting final accounts are not identical, often the joint venture projects do not know what course to pursue. At the same time, in order to meet the needs of reporting final accounts, joint venture projects must establish two separate accounts for their accounting; one account reflecting the budgetary allocations or other allocations of the responsible departments of the central government and the other account reflecting the budgetary allocations

or other allocations of localities. Yet in actual work, joint venture projects often combine the budgetary allocations and other allocations of the responsible departments of the central government and localities and create two made-up accounts, and the accounting of joint venture projects is inconvenient.

With regard to the situation of the responsible departments of the central government and localities, after the final accounts of joint venture projects are received, a "processing and handling" must first be carried out, and after the investment of one side (the central government or localities) is rejected, the accounts can then be presented to a higher level. Because the use of funds in the balance table for final accounts is not reflected according to the source of the respective investments, we can thus only adopt the method of differentiating according to proportions.

Handling accounts this way is neither accurate nor scientific. In fact, we are unable to correctly reflect the circumstances for the use of investment and the actual results and we do not conform to the principle of accounts matching up with reality and accounts matching up with tables.

In view of the aforementioned problems, I feel that we must appropriately improve the current method of reporting the final accounts of joint venture projects; that is, we must change the current method of joint venture projects reporting their final accounts to the responsible departments of the central government and to localities. In order to simplify the measures, strengthen the management and improve the accuracy and scientific nature of the reports of final accounts; the one side (either responsible departments of the central government or localities) that assumes main responsibility for the joint venture project can report the final accounts.

In addition, we must also make the corresponding changes with regard to accounting. In September 1983, the Ministry of Finance issued "The Accounting System of State-Run Capital Construction Units", and on the original basis added "transfer investment" headings, and made clear the substance of accounting for the headings of "transfer investment". The substance of accounting for the "subsidiary" ledgers of "transfer investment--investment allocated to the sponsoring unit" is: the investment of the main construction unit that jointly built a project with another unit as well as the investment allocated to the responsible unit for repairing special lines of railroads and other projects. I feel that after changing the method of reporting the final accounts of joint venture projects, the accounting of some of the investment of joint venture projects can be handled as "transfer investment--the investment allocated to the sponsoring units". My specific idea is: under the premise of defining which side of the joint venture project assumes the main responsibility, determine the corresponding methods for handling the accounts. If localities assume the main responsibility for the joint venture project, the investment allocated to the joint venture project by the responsible departments of the central government can be handled as "transfer investment--investment allocated to the sponsoring unit". At the end of the year, the joint venture project does not again report its final accounts to the responsible departments of the central government;

this portion of the investment is entered directly in the yearend accounts by the responsible departments of the central government. If the responsible departments of the central government assume the main responsibility for the joint venture projects, the investment allocated to the joint venture projects by the localities can be handled as "transfer investment--investment allocated to the sponsoring unit". At the end of the year, the joint venture project only reports the final accounts to the responsible departments of the central government and does not again report the final accounts to localities. The investment allocated to the joint venture projects by the localities is entered directly into the yearend accounts of the construction banks of the localities.

There are at least two advantages in handling the accounts in this manner:

First, it helps simplify the measures for reporting final accounts, reduces the number of work links in every respect, and lightens the workload of the responsible departments of the central government and localities involved in the joint venture project as well as the construction bank which has opened the accounts. Thus, it further improves work efficiency.

Second, my plan helps strengthen management, overcome the abuses that occur when two sides report the final accounts of joint venture projects and helps improve the promptness, accuracy, rationality and scientific sense of reporting final accounts.

After the change has been made from two sides to one side reporting the final accounts of joint venture projects, some comrades may fear that after joint venture projects go into production, the participation of the other side in the distribution of profits may be adversely affected. This fear is unnecessary, because after joint venture projects go into production, participation in the distribution of profits by both sides is carried out according to the proportion of the investment determined in the joint venture contract, and it does not depend on which of the two investors reports the final accounts. Thus, the distribution of profit according to the proportion of investment does not adversely affect any one side.

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FINANCE AND BANKING

PROBLEMS IN PRICE REFORM SPOTLIGHTED

Beijing JIACE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese
No 6, 20 Nov 84 pp 9-11

[Article by Xue Changrong [564] 2490 2837]: "Three Issues That Warrant Attention"]

[Text] There are three issues to which we must be attentive in the current reform of prices.

First, price reform must follow the distinctive path of Chinese socialist reform. Comrade Deng Xiaoping has stated, "Our modern development must proceed from Chinese realities, and in both reform and development we must pay attention to, study and drawn upon foreign experience. Nevertheless, wholesale copying and borrowing of foreign experience and models never yields success." In price reform, we do have to draw upon foreign experience. Yet we must recognize that socialist countries have never been able to effect a complete, single-shot reform of irrational price systems; we must take into consideration the problem of integrating Marxist principles with Chinese socialist practice; we must consider China's conditions--vast territory, huge population, weak foundation, relatively backward economic technology and rather slow development of social productive forces; and, under the general policy of steadily improving economic results, we must strive to accelerate technological progress and increase social productive forces and use this foundation gradually to improve the people's material and spiritual living conditions. In the area of prices, there is irrationality in China's price and price-management systems. This irrationality evolved over many years, much of it having emerged at the outset and some of it occurring or building up in the last several years. For example, to encourage expansion of agricultural production, the state raised purchase prices for some produce, but to avoid increasing urban residents' consumption burdens, the state did not raise selling prices. This led to a reverse gap between buying and selling prices but was necessary during shortages of grain and cooking oil. Now, however, there is an abundance of grain and oil, the state's financial burden has become too onerous and another readjustment is necessary. The general policy for price reform is to adhere to the principle of maintaining basic price stability, which was established by the 12th CPC Congress, and gradually reform the irrational price and price-management systems. In actual practice, we must examine each step of the reform to determine whether

or not that step facilitates expansion of China's productive forces, improvement in the people's living conditions and achievement of the grand objective of quadrupling gross industrial and agricultural output value by the end of this century.

Second, price reform must adhere to the law of value and effect exchange of equal or near-equal value. Marx stated, "The exchange of commodities according to their values or near-values can be accomplished at a very low level of development, whereas exchange in accordance with production prices requires a fairly high level of capitalist development" ("Capital," Vol 3, pp 197-8). Except for cases in which the state has to adopt high- or low-price policies, most commodities must be exchanged in terms of equivalent or near-equivalent labor, which is the same as the exchange of equal or near-equal value. (As I understand it, the term dengjia jiaohuan [4583 0116 0074 2255] is a translation, whereas the original German texts and English translations employ "equal exchange of value." Marx's works refer to exchange of production price. Dengjia jiaohuan has customarily been employed in China, such use continues, the term connotes exchange of equal value and, once value is transformed into production price, the term will come to mean the latter, as well.) This principle not only must be effected between producers, but also between producers and managers, producers and transport enterprises and managers and buyers; all must practice exchange of equal value or near-equal value when carrying out exchange of labor. Except in cases where there are special provisions in the state's price policy, the objectives of price-system reform essentially will have been met if commodity parities and purchase-sales parities are basically effected. Prices for principal commodities, transport, posts and communications, which are related to the national economy and the people's livelihood, and important service fee rates should conform to the principles of labor exchange and exchange of equal or near-equal value.

Third, the reform must enable the price system to meet the following requirements: (1) Provide a system to measure the social and economic results of each department; (2) facilitate expansion in the production of goods that are in short supply and reduction in the output of goods for which there is an oversupply, and enable the national economy to develop in a planned and proportionate way; (3) be conducive to the development of socialist leadership or guided competition; (4) and enable us correctly to handle the economic interests of and relationships between the state, the enterprise and the individual.

Preventing reductions in worker and staff wages and peasant incomes is a crucial requirement in a major reform and readjustment of prices. No complete, single-shot and major price reform has ever been successfully accomplished, and many of the irrationalities in China's price system have emerged over a long period of time. The complete reform of the price system merely provides an objective and a direction, and so long as a basic balance between finances, credit and goods is maintained, the pace of price readjustment and reform can be accelerated a bit. Every readjustment must represent a step toward the objective of rationalizing the price system and express the gradualist spirit of the report of the 12th CPC Congress.

China's finances and economy do not possess the requisite conditions for implementing a complete reform of the price system, but the rapid expansion of the rural commodity economy has created new price problems which, if not promptly resolved, may well impede the development of rural and urban commodity production. On the other hand, in the first half of this year, the state's revenues showed a large increase over the same period last year, many large and medium enterprises achieved equal growth rates in both profits and output value and an excellent trend toward improvement of economic results emerged. Thus China possesses more advantageous conditions than before and can therefore begin considering some issues of price readjustment and reform.

For example, there is a need to readjust parities among industrial goods. Many problems exist in this area, the most prominent of which is the fact that goods from the extractive industry--such as coal, petroleum and metal ores--and chemical minerals, some basic raw materials, and some heavy machinery are priced too low, which leads to a huge disparity in profits among industries and is conducive neither to the development of the extractive industry nor to economy in the use of minerals. To resolve these problems, we must rationally and in proper sequence readjust the parities between primary, intermediate and final products. During readjustment, we must take into account chain-reaction effect; recognize that labor productivity in China's processing industry remains fairly low and that there is potential to be tapped; progressively reduce the magnitude of each successive price increase for coal, other minerals and some raw materials; and require that the processing industry absorb the price increases for minerals so as to encourage the industry to make full use of its potential, conserve energy and absorb the effects of price increases for raw materials and energy. If we experiment with this path, we might consider reducing each price increase and each readjustment interval a bit according to the ability of the processing industry to absorb these increases and readjustments. After a number of such readjustments, prices for industrial goods basically will approximate the true value of those goods.

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FINANCE AND BANKING

INDISCRIMINATE PRICE HIKE MUST BE RESOLUTELY STOPPED

Guangzhou GUANGZHOU RIBAO in Chinese 11 Feb 85 p 1

[Article by staff reporter: "A Leading Comrade of the Municipal Party Committee Said: Indiscriminate Price Hikes Are Another Unhealthy Tendency That Must Be Resolutely Stopped; the Report in This Newspaper Concerning the Indiscriminate Price Hikes in a Number of Public Buses Has Caused Strong Reverberations; the Municipal Public Utilities Bureau and the No 1 Public Bus Company Have Already Checked Disguised Price Hikes"]

[Text] Since 8 February, this paper has consecutively published news and readers' correspondence criticizing the city's public buses that have disguised their price hikes, and has caused strong reverberations.

On the afternoon of 8 February, Zhu Senlin [2612 2773 2651], deputy secretary of the municipal party committee, at the Fourth Plenum of the Fifth Guangzhou CPC Enlarged Meeting expressed praise toward this newspaper's criticism and made a criticism himself of the phenomenon of this type of disguised price hike. On the afternoon of 9 February, Zhu Senlin told this reporter that indiscriminate price hikes are a new unhealthy tendency. The guiding ideology must be correct for public utilities to reform, and they must consider the benefits of the broad masses of people. They must be prudent concerning any matter related to the interests of the broad masses of people and must submit it to higher authorities for approval. He hoped that the leaders of the public utilities bureau and the public bus company would pay close attention to this matter and check the unhealthy tendency of indiscriminate price hikes.

Deputy Mayor Shi Anhui [4258 1344 3189] in response to this paper's criticism of some buses that were concocting various pretexts to indiscriminately raise prices told this reporter that this is an unhealthy tendency that harms the interests of the masses. The criticism of GUANGDONG RIBAO of this type of unhealthy tendency is both good and timely. He hoped that the responsible companies of the public buses and the bureau's leadership would overcome this single-minded pursuit of economic gain and this method of ignoring the interests of society.

On 8 February, this paper published "Some Public Buses Use Hidden Price Hikes, the Masses React Strongly" which elicited the attention of the city's Public Utilities Bureau and the No 1 Public Bus Co. On that day, the bureau and

the company respectively drew up measures and checked the disguised price hikes of public (trolley) buses.

The main leaders of the Municipal Public Utilities Bureau feel that this newspaper's criticism conforms with the facts, it is to the point, and they expressed an openminded acceptance. On the afternoon of 8 February, the bureau called the leading comrades of the relevant departments of the No 1 Public Bus Co and Trolleybus Co to a meeting for study and drew up the following measures to check disguised price hikes: first, public buses and trolleybuses are not permitted to change the names of numbered buses on main lines to earn extra revenue (except when approved by higher levels); second, they are immediately organizing cadres, inspectors and motorized patrols to check the routes, criticize and deal with those buses with disguised price hikes and deal even more severely with those that continue to violate the rules; third, transportation departments are going to recheck the lowest number of buses distributed on each route in the city and strictly prohibit the transfer of vehicles from their routes for another purpose; and fourth, they are keeping the current number of evening buses, regulating the time of departure and maintaining an even interval between buses.

On the afternoon of 8 February, the party committee and manager of the No 1 Public Bus Co called a meeting of the team leaders of each group of buses and secretaries and drew up specific measures for correcting errors. They also welcome surveillance by passengers, and the surveillance phone numbers are 78529 and 75931.

12437

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FINANCE AND BANKING

BANKRUPTCY SHOULD BE ALLOWED IN ENTERPRISES

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC JOURNAL] in Chinese 28 Jan 85 p 3

[Article by Wu Xiaoqiu [0702 2556 3061] of the School of Statistics of the People's University: "Bankruptcy Should Be Allowed in Enterprises"]

[Text] In study of **socialist economic** theory the following viewpoint has been prevalent for a long time, namely, that bankruptcy only exists in capitalist society and that it does not exist in socialist enterprises. I beg to differ.

Bankruptcy is a necessary result of a commodity economy and is a necessary result of competition. We all agree that competition falls under the category of a commodity economy and is the mode of motion inherent in a commodity economy. With competition, there is a difference between victory and defeat. The victors continue to exist and the defeated are eliminated: this is the basic law of competition. The "defeat" and "elimination" in this case are bankruptcy. The bankruptcy of some backward enterprises is the lowest embodiment of competition. Bankruptcy has never existed without competition. If we acknowledge that competition is necessary in a commodity economy, we must also admit that bankruptcy comes under the category of a commodity economy and that it exists in both capitalist society and a socialist commodity economy.

The most fundamental reason why bankruptcy occurs lies in the contradictory activity of numerous commodity producers each pursuing economic gain and lies in the difference between the time required to produce commodities and the socially necessary time of labor. The reason that enterprises go bankrupt in competition is that the time needed to produce commodities greatly exceeds the socially necessary time of labor and they cannot make up the other costs involved in producing commodities. The only correct way to avoid bankruptcy is to reduce to the greatest extent possible in competition the individual time of labor. Some people feel that bankruptcy is a negative result of competition and that it has a restraining effect on the development of the commodity economy: this is a one-sided view. From an objective view of the social economy, the threat of bankruptcy can push commodity producers to use new technology, use advanced management methods, lower production costs, reduce the labor time needed to produce commodities and thereby promote the development of the social economy.

The socialist economy is a planned commodities economy that was established on the basis of the system of public ownership; competition also exists and bankruptcy is also necessary. The problem is that the phenomenon of bankruptcy in socialist enterprises is often concealed behind an irrational economic management system. For example, the products produced by a few enterprises are of inferior quality and expensive, they cannot compete in the market and they depend on state finances and bank loans for subsistence. We must openly acknowledge that there is bankruptcy in socialist enterprises, and realizing this type of bankruptcy through the necessary legislation enables bankruptcy to become a normal act in our socialist commodity economy.

12437

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FINANCE AND BANKING

PROBLEMS IN UNREASONABLE PRICE SYSTEM IDENTIFIED

Beijing JINGJI XUE ZHOUBAO (ECONOMIC AFFAIRS) [in Chinese] 29 Jan 85 p 3

[Article by Jia Jingwen [6328 4842 2429]: "Wherein Lie the Problems With the Unreasonable Price System?"]

[Text] Since the Third Plenum of the 11th CPC Central Committee, with the advances in the restructuring of China's economic system, we have also made a few exploratory advances concerning the price system and price control and have achieved definite results. However, an unreasonable situation with regard to the entire price system and price control methods still exists, and we must reform further.

"Resolutions on the Reform of the Pricing System" issued by the Third Plenum of the 11th CPC Central Committee expounds on the necessity and urgency of China's price reform and makes clear the fundamental tasks and policies for establishing a reasonable price system. This is the programmatic document of China's price reform. I feel that with regard to the price system and the price control system, the essence of the document mainly lies in the following few problems.

1. Price differences for quality are too small. This is a fairly prominent problem that exists in the prices of industrial and agricultural products. It will be most difficult to raise the quality of China's industrial and agricultural products if this problem is not solved. For example, the per unit yield of short-pole rice paddies is high and the price is also high. The peasants themselves do not eat this type of rice but sell it to the state at a good price and eat the leftover rice. The price differences of tobacco are too small. Good-quality tobacco is worth the same as tobacco of inferior quality, and the result is that there are few types of quality tobacco and market supply cannot meet demand; there are also many types of inferior tobacco which is overstocked. The price of coal is set according to weight and not according to calorific content; this is detrimental to improving the quality of coal.

2. The prices of a number of excavated industrial products are on the low side, and profit margins are too low. According to data from the State Bureau of Statistics, the profit margins of publicly-owned industrial enterprises averaged 14.4 percent in 1983. Of this, the profit margin

of the coal industry was the lowest at -0.61 percent; the profit margin of the chemical industry was fairly high at 19.72 percent; and the profit margin of the tailoring industry was 27.86 percent. The difference between the profit margins of different industrial departments is extremely large. This gap is not the result of the difference in the competence of the departments' management but is the result of irrational prices being set on a few products.

3. Price subsidies are increasing with each passing year and the burden on state finances is too heavy. After the Third Plenum of the 11th CPC Central Committee, in order to promote the development of industrial and agricultural production, we raised the producer price or purchasing price of a number of industrial and agricultural products, while sales prices, however, remained the same; the losses from the upside-down purchasing and selling prices as well as from management and administration expenses are subsidized by the state. In 1983, the state's expenditures for price subsidies were already 13-fold greater than in 1965; this has become an extremely heavy burden on state finances. At the same time, the variety and amount of products with price subsidies are too great; this actually messes up the price parity relationship between subsidized goods and interrelated goods and creates many unreasonable phenomena.

4. The standard fees collected by some urban public utilities are low. Rent is particularly low. Based on current rent charges, not only is the state unable to get a return on its investment in housing construction, but it must subsidize housing year after year, and the more that is invested, the more that is subsidized.

5. Unreasonable prices are fixed on the products of certain industrial enterprises. Even today, some industrial departments adopt the method of calculating their prices by adding a 5-percent profit margin to their costs. Not only does this method make enterprises who have transferred a large amount of value to again calculate their profits, but even more seriously, the more that quotas are used up, the higher the cost and the higher the profit. This method of setting prices must definitely be changed.

Due to the existence of the aforementioned unreasonable phenomena which are both numerous and severe, the prices of many goods reflect neither value nor the relationship between supply and demand; this greatly weakens the role of prices as an economic lever. In the future, we must pay close attention to the role of prices as economic levers, do a good job in the work of reforming the role of prices as economic levers, do a good job in the work of reforming the price system and adjusting prices and coordinate and promote the implementation of the restructuring of the economic system.

12437

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ESTABLISHING A REASONABLE PRICING SYSTEM

Beijing JINGJI KEXUE [SOCIAL SCIENCES] in Chinese No 12, 15 Dec 84 pp 12-15

[Article by Zhuang Zhaoying [8369 3564 5391]: "A Discussion of the Necessity of Price Reform"]

[Text] "The Resolution of the CPC Central Committee on the Restructuring of the Economic System" pointed out that we must "establish a reasonable pricing system and pay full attention to the role of the economic lever." With my current experience in actual work, I will discuss my understanding of the necessity of price reform.

Price reform includes reform of the pricing system and reform of the pricing management system. Thus, we can discuss the necessity of price reform with regard to these two aspects.

1. The Necessity of the Reform of the Pricing System

"The Resolution" pointed out: "A fairly chaotic phenomenon currently exists in China's implementation of the pricing system....." "Starting at the present time we must adopt measures and gradually change this situation."

First, in the price structure, "the prices of many commodities reflect neither value nor the relationship between supply and demand." The ways in which prices do not reflect value are mainly displayed in the following five points:

1. Costs are not perfect. Cost is the "C + V" portion of the price structure. With regard to "C," there are some projects that ought to be listed but have not been listed or have not been listed sufficiently, for example, the depreciation rate for fixed assets is usually on the low side. The "V" portion is also not completely reflected in the price structure, for example, there are numerous subsidies that have not been accounted for.

2. Profits are not precise. Profits are the "M" portion in the price structure. Since the founding of the People's Republic, we have always made calculations using the cost profit margin, and we have not been able to precisely reflect the deserved profits.

3. Prices have not changed with the changes in the magnitude of value. When some products begin to go into production, labor productivity is low, the reject rate is high, costs are large and prices are set high; afterward, labor

productivity rises, the reject rate drops, costs decrease, prices do not drop correspondingly, the prices for the raw and processed materials of a few commodities rise, costs increase, enterprises are unable to "digest them" and prices do not move.

4. We do not set prices using the necessary volume of social labor but set prices using the individual (a portion of products) volume of labor. For example, the prices for cement from cement produced by a large factory are different from the prices of cement produced by a small factory. The labor productivity rate of the large factory is high and prices are set low--a little more than 50 yuan per ton. The labor productivity rate of the small factory is low and prices are set high--about 70, 80, even 100 yuan per ton. The situation is the same for glass, steel, sulphuric acid, etc.

5. Prices are not set according to the necessary volume of social labor but are set according to sales targets. For example, before May of this year, bamboo (with a circumference of 9 cun at the base) was sold in this city to handicraft industry units at 2.35 yuan per piece, was sold to peasants at 2.8 yuan and was sold to capital construction units at 3.2 yuan. A few commodities are still sold at two prices--one for groups and one for individuals. For example, soda water [paokaishui: 汽水 3055] is sold at .02 yuan per bottle for groups and at .01 yuan per bottle for individuals.

The problem of prices not reflecting the relationship between supply and demand has existed since the founding of the People's Republic. This relationship is fettered by the fixed concept that the law of value does not play the role of adjusting production and that production must use a plan for adjustment. We often do not use economic levers but use "piaozheng" [4384 6086] levers and "waiting in line levers." It depends on whether it is "pinpiao pingzheng," waiting in line and how long the line is to adjust supply and demand.

B. The phenomenon of the "five highs and five lows" in the price parities of commodities:

1. The prices of industrial products are high and the prices of agricultural products are low. Some people estimate that in 1982, the prices of China's industrial products were 11 percent higher than their value and the prices of agricultural products were 21 percent higher than their value.

2. As for agricultural products, the prices of cash crops are high and the prices of grain crops are low. According to a 1981 study, grain crops yield 11.16 yuan per mu after taxes and cash crops yield an average of 68.06 yuan per mu after taxes, including 22.68 yuan for oil-bearing crops, 49.29 yuan for cotton and 105.34 yuan for flue-cured tobacco.

3. As for industrial products, the prices of light industrial products are high and the prices of heavy industrial products are low. In 1982, industrial enterprises of the public ownership system had an average profit margin of 10.6 percent. The profit margin for light industrial products was usually higher than 10 percent, and even higher for watches, and the profit margin for heavy industry was usually below 10 percent.

4. As for heavy industrial products, the prices of processed products are high and the prices of raw and processed materials are low, and the prices of mineral products are especially low. It is just as the "Resolution" stated: "The prices of a few mineral products and raw and processed materials are on the low side." The average cost of 1 ton of iron ore is 40.18 yuan, the price is 45.37 yuan and the profit margin is only 2.3 percent, much lower than the average profit margin of the steel industry of 9.18 percent. The price of pig iron is lower than the cost, with the result that enterprises suffer 60 percent losses. The price of 1 ton of pig iron is approximately 200 yuan and the average price of steel is 580 yuan; the price parity between the two is 1:2.7, and the price parity on the international market is approximately 1:1.8. China's coal prices are also on the low side. In 1982 the average profit margin was only 0.5 percent and losses reached 61.9 percent. The price parity between crude oil and refined oil is also unreasonable, between 1:2 and 1:6, and in foreign countries it is between 1:1.3 and 1:1.6.

5. As for heavy industry's processed goods, prices of industry-related goods are high and prices of agricultural products are low. For example, the prices of industrial equipment are usually fairly high and the prices of the agricultural means of production are fairly low. In 1982, the average profit margin of the farm machinery industry was only 2.3 percent and the profit margin of the fertilizer industry was only 5.1 percent.

Besides the phenomena of the "five highs and five lows" that exists in the price parities between commodities, an irrational phenomenon in price parities also exists between the prices and charges of commodities. For example, from 1950 to 1952, the nation's retail prices rose 53.3 percent, but rail transportation costs dropped 16 percent. An irrational phenomenon also existed in the price parities between different forms of transportation. In 1981, the profit margin of the transportation industry was 5.9 percent, and of this, the profit margin of railroad transportation was 4.5 percent, the profit margin of water transport and of industries subordinate to the central government was 8.9 percent, the profit margin of local transportation was 6.2 percent and the profit margin of civil aviation was 4.8 percent: these were all rather low. Yet highway transportation costs were fairly high, and the profit margin was 12.2 percent. The costs of rent of public institutions also are fairly low, and an irrational price parity phenomenon clearly exists between the cost of housing and rent.

C. The Phenomenon of the "Five Irrationals" also Exists in Price Differences

1. The differences between purchasing and selling prices are irrational. The "Resolution" pointed out: "The purchasing and selling prices of important farm produce and sideline products are upside down, and the selling prices are lower than the state purchasing prices." The state adopts the method of subsidizing enterprise losses. This plays a definite role in ensuring the standard of living of the people, but it causes the state to bear a burden that is getting heavier and heavier. China's state subsidies totaled 9.086 billion yuan in 1978 and 39 billion yuan in 1983, almost one-third of state revenue. China has almost reached the point where the burden of its financial resources is difficult to bear.

2. Price differences for quality are irrational. The "Resolution" stated: "Price differences for the quality of similar products have not been widened." In other words, we have not done a good job at implementing the policy of good prices for high quality, low prices for lesser quality and negotiation of prices according to quality. The quality of northern cotton is substandard but the selling price is high, and southern cotton is of outstanding quality and has a low price. The quality of northern lumber is high and the price is low, and inferior lumber from the south carries a high price. The price difference between name-brand bicycles and ordinary bicycles is too small, and the quality of name-brand products is not identical to their prices.

3. The differences between retail and wholesale prices are irrational. The difference in the retail and wholesale prices of a few commodities, especially small commodities, is too close.

4. Regional price differences are irrational. Usually regional price differences are too small, and some commodities even have one national price.

5. Seasonal price differences are irrational. Many commodities that should have seasonal price differences do not, or they have price differences that are too small.

D. The Many Different Irrational Phenomena Mentioned Above that Exist in the Pricing System Create Numerous Problems and Unhealthy Results

1. "We are unable to correctly evaluate the production and management results of enterprises." When prices do not reflect value and price parities between commodities are irrational, prices cannot become accurate tools for carrying out business accounting, and we are unable to correctly evaluate the production, management and investment results of enterprises.

2. "We are unable to ensure the smooth flow of goods and materials between the city and the countryside." The upside down purchasing and selling prices of farm produce and sideline products, as well as the irrational regional price differences and wholesale price differences make commercial departments unenthusiastic in management and make regions unwilling to make transfers. The phenomenon of "difficulties in buying and selling" appears, and this affects the smooth flow of goods and the market supply.

3. "We are unable to promote technological advancements." Commodities that are of substandard quality and that do not have divergent prices are detrimental toward promoting the use of new technology to improve the quality of products. When prices do not reflect value, we are unable to encourage the advanced, urge on the backward and promote a higher rate of productivity and technological advancement.

4. "We are unable to promote a rational structure of production and consumption." Irrational prices will give people erroneous information and will lead enterprises to blindly go into production, will cause redundant construction and will cause an irrational production structure. If prices do not reflect the relationship between supply and demand, scarce products will not be produced and plentiful products will not be consumed, then the production structure will not be suited to the needs of consumption and the consumption

structure will be irrational. The prices of a few mineral products and raw and processed materials are on the low side: this is detrimental to economizing and will affect the rational consumption structure of raw and processed materials.

5. We are unable to correctly implement the balance of value, prices do not reflect value and it is difficult to use a balance of value in planned work and enable it to become an effective measure for planned management.

Because of these "unables," "we are creating a huge waste of social labor," including a waste of live labor and objectified labor, and this affects the improvement of economic results and the development of social productive forces.

Furthermore, because of these "unables," we are especially unable to correctly appraise the production and management results of enterprises. This creates a situation in which there is inequity between enterprises and "can also seriously hinder the implementation of the principle of distribution according to labor."

Since the irrational pricing system which we are implementing has these numerous problems, it also has serious consequences, and it is easy to see the necessity of reform.

II. The Necessity of the Reform of the Pricing Management System

The "Resolution" pointed out: "The irrational pricing system is closely related to the irrational pricing management system." Thus, at the same time as carrying out a reform of the pricing system, we must carry out a reform of the pricing management system.

The pricing management system is divided into the forms and the limits of price management. Therefore, we must also discuss the necessity of the reform of the pricing management system with regard to these two aspects.

It is necessary to reform the form of pricing management because the current forms of pricing are too interconnected and overcentralized.

There are already three price forms: prices fixed by the state, floating prices and unrestrained prices. There are also two types of unrestrained prices: first, unrestrained prices of supply and marketing cooperatives and of enterprises of the system of public ownership (including the negotiated prices of certain farm products, prices fixed through negotiation by industrial and commercial enterprises for industrial products of daily use and small commodities and negotiated prices for the means of production) and second, unrestrained prices of the free market.

The problems that we are facing at the present time are: the range of the state's fixed prices is too broad--generally about 70 percent; fixed prices often have no basis and do not use the law of value, and fixed prices are on the low side; and fixed prices often remain unchanged for a long time. The

scope of floating prices is too small, their intermediate standard prices are also fairly fixed and they often do not change along with changing situations. The unrestrained prices of some enterprises of the system of public ownership and supply and marketing cooperatives still have fixed divergent rates for import sales and have not truly opened up. We have also made unnecessary restrictions on unrestrained prices on the free market.

These circumstances are detrimental to giving full play to the leverage effect of prices, do not help to effectively use market mechanisms and are detrimental to the planned development of the commodity economy which is based on our system of public ownership. We must carry out a reform, give full play to the function of enterprises of the system of public ownership and supply and marketing cooperatives in participating in market readjustment and so lead market prices in a rational direction.

With regard to the necessity of reforming the division of labor in terms of pricing management, currently, the division of labor is too centralized and does not suit the special characteristics of such a large country as China, of unbalanced economic development in each region and of the deserved independence of producers and managers of commodities in a planned commodity economy. We all know that there are many changing situations that affect commodity prices, and when the costs of certain commodities and the relationship between supply and demand begin to change, grass-roots enterprises must adjust their prices in accord with the original system, must make a report to higher authorities level by level, and while they are waiting for approval from each level, often the situation has begun to change again and is inappropriate. Therefore, the "Resolution" points out that "we must reform our overcentralized pricing management system." We must simplify policies and loosen authority, effectively implement the principle of "unified leadership and divided management," expand local authority and give localities a certain amount of autonomy. If we do not do this we will be truly incapable of stimulating enterprises.

12437

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FINANCE AND BANKING

QUICK INCOME TAX CALCULATION DISCUSSED

Beijing ZHONGGUO SHUIWU [CHINA'S REVENUE] in Chinese No 1, 12 Jan 85
p 30

[Article by Wen Weixian [2429 5588 2009]: "A Discussion of Quick Income Tax Calculation"]

[Text] Progressive tax rates for exceeding quotas are a type of tax rate that China is currently using for its income tax. It divides the entire amount of income into certain brackets, and the portion of income that exceeds each bracket is subject to the appropriate tax rate of the next highest bracket. This is how it differs from the progressive tax rate on the entire amount. The size of the tax rate is determined by the size of the individual's income, and the tax burden is fairly reasonable because the amount of income is divided into categories, and the tax that must be paid is calculated for each category. The greater the income, the more brackets the income is divided into, and the procedures for calculating the tax become more tedious. For example, the "Eight Bracket Tax Rate Chart for Progressive Income That Is Above Quota" (hereafter called "Chart") divides income into eight brackets. When income exceeds 200,000 yuan, then there are 8 applicable brackets and 9 mathematical calculations that must be performed to come up with the amount of tax that has to be paid. This method is really too tedious. In order to solve this problem, we generally use a quick calculation method to figure out the tax that must be paid.

The so-called quick method of calculation is to first calculate a hypothetical amount that must be paid for the entire amount of income according to the applicable tax rate from the highest bracket and then subtract the amount of money that has been calculated too high because the tax rate on the income tax was raised from a fairly low bracket (i.e., the quick calculation deduction), and the result is the actual amount that must be paid. The formula is:

The income tax equals the amount of income multiplied by the applicable tax rate minus the deduction.

In using the quick method to calculate income tax, the number of mathematical calculations that need to be performed can be reduced from many to just two. This greatly simplifies the computation process and is extremely helpful in managing the collection of income tax. As for the form of the quick calculation deduction, some text books have this definition: the quick calculation deduction uses the taxes calculated from progressive tax rates and subtracts the difference of the taxes calculated from progressive tax rates that are above quota. I feel that this definition does not explain the true origin of the quick calculation deduction and it easily leads people astray. Thus, it is important that we engage in a discussion.

The quick calculation deduction really takes the taxes calculated from progressive tax rates and subtracts the difference of the taxes calculated from progressive tax rates on the amount that is above quota, but it does not stem from the progressive tax rate on the entire amount, rather, it stems from a quick calculation of the progressive tax rate on the amount above quota. Using an income of 1,001 yuan as an example, we adopt the "primitive" method of calculating the progressive tax rate on the amount above quota which requires that we perform three mathematical calculations: first, we calculate the tax on 1,000 yuan according to the 10 percent tax rate of the first bracket; second, we calculate the tax on 1 yuan according to the 20 percent tax rate of the second bracket; and third, we add together the taxes that must be paid from these two calculations and get the total. The process of these mathematical calculations is as follows:

1,000 yuan x 10 percent = 100 yuan
1 yuan x 20 percent = 0.20 yuan
100 yuan + 0.20 yuan = 100.20 yuan

If we adopt a quick calculation method, we can first tax the entire income according to the tax rate from the highest bracket and then come up with a hypothetical amount that must be paid:

1,001 yuan x 20 percent = 200.20 yuan

The result of this calculation is that the 1,000 yuan income which is taxed at the 10 percent tax rate of the first tax bracket is also calculated according to a 20 percent tax rate. This rate, which is 10 percent higher, adds 100 yuan to the calculation, and this 100 yuan is deducted. We then come up with the actual income tax that must be paid, i.e., 200.20 yuan - 100 yuan = 100.20 yuan. This 100 yuan that is deducted is the quick calculation deduction. It has no connection to the progressive tax rate but is a result of calculating the tax by raising the tax rate on that portion of income which is in a lower bracket.

As another example, the quick calculation deduction of 14,830 yuan in the 8-bracket "Chart" (with an applicable tax rate of 55 percent) is due to the fact that the taxes are calculated according to their

applicable tax rates, and an income of 200,000 yuan or less which falls into 7 tax brackets results in a tax rate of 55 percent. Its origin can be found in the chart below:

Bracket	Level (yuan)	Income (yuan)	Applicable Tax Rate for this Bracket %	The Raised Rate %	The Amount That Is Overcalculated (the quick-calculation deduction)
1	less than 1,000	1,000	10	45	450 yuan
2	1,000-3,500	2,500	20	35	875 yuan
3	3,500-10,000	6,500	28	27	1,755 yuan
4	10,000-25,000	15,000	35	10	3,000 yuan
5	25,000-50,000	25,000	42	13	3,250 yuan
6	50,000-100,000	50,000	48	7	3,500 yuan
7	100,000-200,000	100,000	53	2	2,000 yuan
	TOTAL	200,000			14,880 yuan

In short, when using a quick method of calculation, the so-called quick calculation deduction is the difference created when we calculate the tax for the entire amount of income according to the highest bracket and use a higher tax rate for the portion of income in the lower bracket. Using the quick method to calculate taxes does not change the applicable tax rate on the income in the lower bracket, and the amount of taxes that must be paid is the same as the results achieved from using the "primitive" method of calculating the tax according to progressive tax rates on the amount above quota. This way we uphold the principle of calculating taxes with progressive tax rates on the amount above quota: the tax collection targets are divided into certain brackets and the portion in each bracket is taxed according to its applicable tax rate.

12437

CSO: 4006/409

FINANCE AND BANKING

DIVERTING SAVINGS TO PRODUCTIVE INVESTMENT

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC HERALD] in Chinese 4 Feb 85 p 3

[Letter to the editor by Jin Shuyan [6855 2579 6056] of Shanghai:
"Diverting Savings to Productive Investment May Stimulate the Economy
To 'Take Off'--If Something Goes Wrong, Millions in Consumption Funds
Can Sack the Market"]

[Text] Because the masses have more money on hand, some people advocate "making more and spending more." But merely provoking them to spend their money on consumption is inappropriate. We should open up a channel and let the masses spend their money on productive investment.

It is a good thing that there is more money in society. But it can be a bad thing, too. Some people say that a huge sum of money is more dangerous than Genghis Khan's cavalry. If something goes wrong, it could sack the market in a very short time. This is not deliberately mystifying. According to statistics, the total amount of various bank deposits during the 1979-83 period was 1.6-fold as much as that in the previous 26 years. What is more astonishing is urban and rural people's savings deposits which increased 2.1-fold--nearly 100 billion yuan--between 1978 and 1983. In 1984 this tendency continued to develop. In the Shanghai area alone, savings deposits of industrial and commercial banks increased nearly 20 percent compared to the previous year. If all this money enters the consumer goods market at the same time, it can only be more, not less, dangerous than the pillaging done by Genghis Khan's cavalry.

If this money can be diverted to productive investment, it will become a very good thing. During his visit to China, Xiao Linshi [1420 2651 1395], member of the board of directors of the Industrial Bank of Japan, Ltd, said that the secret of Japan's rapid growth was its high long-term investment rate and its major source of capital was savings. China is entering the stage of a "take-off." Undoubtedly, it needs more money to support its national economic development. But state revenue that can be used for long-term investment is very limited. Therefore, changing total reliance on state revenue to equal reliance on both

state and people's funds in productive construction will play a role that cannot be replaced in stimulating China to enter the stage of "take-off" at an earlier date.

Absorbing the masses' money for investment can cause a number of new problems in theory and practice. Where there is investment, there is a problem of ownership. Can individuals be allowed to own part of the means of production of state-run and collective enterprises? Can the means of production owned by individuals be sold on the market? What is the proper way to readjust the scale of investment in society? We have already made some breakthroughs on these questions in practice. As long as we have a truth-seeking attitude conducive to development of productive forces, we can harmonize and integrate theory and practice on this issue.

12302

CSO: 4006/424

FINANCE AND BANKING

RAPID INCREASE IN CONSUMPTION FUNDS ANALYZED

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC HERALD] in Chinese 4 Feb 85 p 2

[Letter to the editor by Zhong Qirui [6988 6386 3843] of Beijing: "The Rapid Increase of Consumption Funds Calls for Attention"]

[Text] In 1984 the wages and bonuses of staff members and workers, which were paid in cash by banks, increased 22.3 percent over the previous year. Cash paid in the name of administrative and enterprise management expenses but used for group and individual consumption increased 38 percent over the previous year, much higher than the 13.6 percent increase of industrial output value and the 17.4 percent increase of social commodity retail sales. Wages and bonuses from each 100-yuan industrial output value paid by banks increased 1.2 yuan over the previous year, the highest in history. The increase of consumption funds surpassed the increase of industrial production and that of market commodity supply. What caused this? In addition to problems concerning party style and discipline, I think we should pay attention to the following reasons:

1. Last year the prices of vegetables, fruits and nonstaple foodstuffs were up by a fairly wide margin. In order not to lower the actual living standards of staff members and workers, some localities and units have increased the bonuses and subsidies of staff members and workers.
2. The current price system has not been reformed, and the prices of many products have been irrational. The amount of circulating funds used by enterprises without compensation and the fixed assets of enterprises have been very uneven. Command-plan product production tasks assigned to some enterprises have been heavier than those assigned to others. The proportion of fuel and raw materials supplied to different enterprises at state transfer prices have been different. The size of enterprise economic results has been determined to a large extent by the external conditions of enterprises. To avoid "suffering losses," some departments and units have adopted inappropriate measures to increase "profits" and vied with each other in increasing bonuses and subsidies.

3. After substituting tax payment for profit delivery, enterprises still "eat from the same big pot" because all the circulating funds needed for expanding production and management still come from banks. They do not have to worry about the problem of replenishing their own funds. They thought what is left after paying state taxes can all go to their staff members and workers.

4. Because enterprises will soon carry out wage reform at their own expense, some localities and departments rushed headlong into raising wages and issuing bonuses before year-end to raise the base of wage fund. The amount of wages and bonuses issued in the last month of last year was 54 percent more than that issued in the corresponding period of the previous year.

5. As for the question of how to keep wages and bonuses within the limit allowed by economic development after unleashing enterprises and granting them more powers, we still lack a complete set of effective control systems and measures. The amount of wages and bonuses that can be distributed within a given period is not specified in any overall policy; nor is the ratio of wage and bonus increase to economic increase determined by any local policy. No department is assigned to take the lead in the control, providing no basis for such control and making it only nominal in nature.

12302

CSO: 4006/424

FINANCE AND BANKING

PEOPLE'S BANK REFORMS TRANSFER, SETTLEMENT SYSTEM

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 2, 4 Feb 85 pp 5-6

[Article: "The People's Bank of China Decides To Reform Its Transfer and Settlement System"]

[Text] The existing bank transfer and settlement system of China cannot suit the needs of a planned commodity economy. It must undergo fairly comprehensive reform in accordance with the guidelines of the "Decision of the CPC Central Committee on the Reform of the Economic System." A reform plan was discussed and brought up at a recent meeting of the presidents of the branch offices of the People's Bank. Its main points are:

1. Adopt various credit circulation instruments to suit the needs of various economic activities. Collective and individual economies, in particular, have developed even faster. The limited variety of existing credit circulation instruments is unsuitable for such development. Large amounts of cash transactions have caused inconveniences to commodity exchanges. In order to improve this situation, the People's Bank is planning to adopt several credit circulation instruments, including cashier's checks and traveller's checks in the first half of 1985.

Cashier's checks will first be used in areas where most economic activities are carried out and most cash payments are made. They are suitable for use within the limit of a city or county for enterprises, individual economic units and individuals to settle accounts in economic transactions. They can be transferred to other accounts or cashed. Cashier's checks should be used within the specified period of validity. If they are lost, they cannot be redeemed. There are two kinds of cashier's checks--those with a fixed value and those without a fixed value. Both are issued by the People's Bank and signed and distributed by specialized banks to their customers.

Traveller's checks are suitable for use mainly on business trips, tours and other economic transactions. They can be transferred to other accounts or cashed. Their valid period is 2 months and their denominations are fixed at 500, 1,000 and 5,000 yuan. They are printed in a unified manner and signed and distributed by banks to their customers.

Money orders are a flexible and convenient way to settle accounts. Aside from the national effort to create conditions to expand the scope of issuing and redeeming money orders, all provinces, autonomous regions and municipalities should also vigorously promote this method of settling accounts within the limit of their jurisdiction.

Currently, banks charge individuals (those who do not have deposits with the banks) 1 percent of the remittance for handling money orders, which is too high and not conducive to expanding the scope of account transfer and settlement. It is necessary to reduce remittance fees and provide different rates according to the amount remitted.

Fixed-value [1353 7345] account transfer checks are a simple and convenient method to settle accounts in procuring farm and sideline products. It can reduce cash payments and should be vigorously promoted on the condition that peasants volunteer to accept such a check.

Rural quota [7098 7345] account settlement method is conducive to transferring manufactured goods from urban to rural areas. Continuous efforts should be made to do a good job in this regard.

2. Improve or abandon those methods of settling accounts which cannot meet the needs of economic reform.

The existing collection and acceptance system is a method of settling accounts which has many defects and is unable to meet the needs of the development of a commodity economy. Under this system, enterprises can take advantage of bank credit and cause such abnormal phenomena as defaults. Besides, this system is not conducive to invigorating the economy and exercising business decision-making power by enterprises. To make it easier for enterprises to sign and fulfill economic contracts, the People's Bank is planning to abandon this method of settling accounts in the second half of 1985. To help settle the accounts of enterprises that deliver goods and collect payments on their own initiative according to contracts, the People's Bank will improve entrusted collection and letter of credit systems while abandoning the collection and acceptance method of settling accounts.

The entrusted collection system is convenient for payees to collect money on their own initiative. In addition to expanding its scope of application and improving some regulations to make it more convenient and flexible, the People's Bank will provide credit guarantees for payees to help them receive payments after they deliver goods. When adopting this system, both parties--the payee and the payer--should specify in the economic contract that on a specified date agreed upon, the payer will provide the payee with a certificate issued by his bank to guarantee that he will make the payment. With such a certificate, the payee will deliver goods on one or several shipments and then follow the procedure of entrusted collection. The bank representing the payer should guarantee that he pays on time and help him with bank loans if he fails to make the

payment when it is due. To solve the problem of idle funds caused by the time difference between shipment and payment in the entrusted collection system, banks may issue loans for the settlement of accounts. The current interest rate of such a loan is too low, causing banks to suffer from negative interest. Besides, it is not conducive to developing the role of lever played by bank interest rates and the settlement of accounts. The People's Bank is planning to raise its monthly interest rate from 0.3 percent to 0.48 percent.

To bring into play the role of the letter of credit in settlement accounts, the People's Bank will absorb in accordance with China's reality some flexible international practices in using the letter of credit to settle accounts to enable this method of settling accounts to have the characteristic of bank credit guarantee and a certain degree of flexibility. The original stipulation that the payer should pay the full amount of cash deposit when he applies for a letter of credit will be changed so he may pay the full amount or pay less or none. After the bank representing the payer pays the full amount specified on the letter of credit, if the balance of the payer's deposit is insufficient, the credit and loan department of the bank may transfer some money to his account. A letter of credit signed and issued by a bank can be used, when needed, by one to three payees to settle accounts. The number of payees specified on the letter of credit may later be changed.

3. Reform the method of local account settlement and expand the scope of local bill exchange.

According to the limit of authority for managing the settlement of accounts, banks concerned should reform or improve the methods of local account settlement in light of local reality on condition they do not violate the basic principles of settling accounts. They should change the procedure of settling accounts in different places to the procedure of local account settlement in areas where communications conditions are fairly good so as to shorten as much as possible the process of settling accounts.

4. Draw the limit of authority for managing the settlement of accounts and define functions and responsibilities.

In managing the settlement of accounts, the People's Bank will combine centralized and unified management with the management of different banks at different levels. The basic system of settling accounts will be formulated by the general office of the People's Bank. The methods of settling accounts within a city or county will be formulated in accordance with the basic requirements of the account settlement system and concrete situation by the provincial, autonomous regional and municipal branches of the People's Bank, city banks in special economic zones, coastal open cities and city banks which have been proved by the State Council to carry out comprehensive restructuring of the economic

system on a trial basis. Such methods should be reported to the general office of the People's Bank for the record after they are formulated. All specialized banks and the provincial, autonomous regional and municipal branches of the People's Bank may try out new methods of settling accounts within their jurisdiction in accordance with the needs of economic activities and report to the general office of the People's Bank for the record. All rules in the basic system of settling accounts must be strictly followed by all branches of the People's Bank and specialized banks. They cannot be altered without the approval of the general office of the People's Bank of China. All branches of the People's Bank should coordinate, guide and check on the work of account settlement carried out by specialized banks at the same level and their subordinate organs.

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CSO: 4006/424

FINANCE AND BANKING

JIANGSU POOLS 1.4 BILLION YUAN IN 1984

Nanjing XINHUA RIBAO in Chinese 25 Jan 85 p 1

[Article by Huang Ruzhi [7806 1172 0037]: "Last Year Jiangsu Pooled 1.4 Billion Yuan in Social Funds; This Year Jiangsu Must Further Strengthen Leadership and Management"]

[Text] Last year, Jiangsu Province pooled 1.4 billion yuan in social funds, of which more than 800 million yuan was pooled in the countryside. These social funds have caused the masses to voluntarily transfer a portion of their consumption funds for production and consumption, have broken through the situation of the state taking care of all undertakings, and have truly changed economic construction into an undertaking of all the people.

These social funds have promoted the development of Jiangsu's economy. Not only have these funds concentrated a portion of funds and aided in the state's key construction, but they have also relieved Jiangsu's shortage of energy resources and raw and processed materials. They have developed Jiangsu's economic cooperation with other parties, promoted horizontal relations and economic and technical alliances, especially in the countryside, have started numerous rural and township industries and economic associations, accelerated the technological transformations of small enterprises, expanded employment, and increased the income of the people.

Currently, there are still a few areas in which work in the area of these pooled social funds is not perfect. For example, the funds are not channeled into the state plan to achieve a comprehensive balance; there is still blindness in some areas, and some funds are being pooled before a project has been decided upon; a few projects have not drawn up good feasibility studies; there are no set regulations for dividends and drawing extra profits; and the phenomenon of rigid apportioning still exists. We must strengthen leadership and management in all these areas. Banks must provide service and guide social funds on to a healthy road to development.

12437
CSO: 4006/411

FINANCE AND BANKING

GUANGDONG BANKS ISSUE CASHIER'S CHECKS

Guangzhou GUANGZHOU RIBAO in Chinese 4 Feb 85 p 1

[Article by Pan Qingneng [3382 1987 5174]: "Starting Today, Guangdong Province Will Be Issuing Bank Cashier's Checks for Business Transactions; They Come in 50-Yuan and 100-Yuan Denominations and Are Equal in Value to RMB"]

[Text] Starting today, the Guangdong branches of the People's Bank of China will start issuing cashier's check throughout the province for business transactions.

The cashier's checks of the Guangdong branches of the People's Bank of China (called bank cashier's checks below) are a type of bank credit note and are guaranteed by the bank with no conditions to be good for the face value of the check in RMB.

Since Guangdong has been carrying out the policy of opening up to the outside world and stimulating the domestic economy, there has been vigorous economic development in the city and the countryside, commodity circulation has continuously expanded, the market is flourishing, the amount of cash used in the exchange of commodities between the city and the countryside is becoming larger and larger, and it is not convenient for the masses to carry cash. In order to meet the needs of the rapid development of Guangdong's commodity economy and in order to make it convenient to do business, the Guangdong branches of the People's Bank of China decided to expand the use of a tool for credit circulation and to start issuing cashier's checks for business transactions.

Bank cashier's checks come in 50-yuan and 100-yuan denominations and are equal in value to RMB. Any unit or individual can use bank cashier's checks to purchase goods, pay service fees, pay taxes, settle debts and make a few other kinds of payments. They can also be used to exchange cash and savings, pay back loans, make remittances, make payments for goods and settle accounts with banks and credit unions. These bank cashier's checks can only be used in Guangdong Province and are strictly prohibited from being carried abroad. Because no record is made of these cashier's checks, the bank does not handle losses.

12437

CSO: 4006/411

FINANCE AND BANKING

HUBEI AGRICULTURAL BANK SUPPORTS SPRING FARMING

HK090427 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 7 Apr 85

[Text] While strengthening comprehensive control, the provincial agricultural bank has vigorously taken measures to utilize and raise funds to support current spring farming and the readjustment of the rural production structure. According to statistics, by the end of March, the agricultural loans which had been recovered by all agricultural banks throughout the province totaled 500 million yuan, the amount of savings deposits was 200 million yuan more than in the corresponding period last year, and the total amount of loans for spring farming was 820 million more than in the same period last year, an increase of 140 percent.

This year, agricultural loans issued 1 to 2 months earlier than in the past and funds for diversification, livestock-breeding, fisheries, and forestry were also issued. The method of transferring accounts and settling accounts has been popularized to ensure that special funds for spring farming are used for special purposes.

With a view to raising funds for spring farming, the provincial agricultural bank has strengthened comprehensive control over credit. In accordance with the scope fixed by the provincial government, all banks have strengthened comprehensive control at all levels. They have resolutely reduced the loans which should be reduced and have resolutely recovered the loans which should be recovered. In accordance with the situation in economic results, they have examined and dealt with all new township and town industrial items one by one throughout the province to overcome blindness in production. They have resolutely stopped all new items which will use funds for spring farming and will examine and arrange for them in future to ensure that the limited funds can be used for spring farming.

CSO: 4006/532

FINANCE AND BANKING

BRIEFS

JILIN TREASURY BOND PURCHASE--Over the past 4 years, Jilin Province has spent 390.14 million yuan on buying treasury bonds. In these purchases, state and collectively owned units have spent 168.65 million; staff members and workers, 178.84 million yuan; and peasants, 42.64 million yuan. In 1985, the province will increase its purchase from 98 million yuan in 1984 to 162 million yuan in 1985. [Excerpts] [Changchun JILIN RIBAO in Chinese 24 Mar 85 p 1 SK]

HEILONGJIANG INSURANCE SERVICE--With the development of the economic reform, insurance service has developed quickly in Heilongjiang Province. Thus far, more than 50 billion yuan worth of property has been secured through insurance programs. Having been restored in 1980, the province's insurance service has offered enterprise property, freight transport, motor vehicle, personal, and 20 other insurance programs. The 1984 provincial revenue from insurance service increased by 50 percent over the previous year. In 1984, various insurance companies in the province paid some 49 million yuan of indemnities to the people. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 6 Apr 85 SK]

SHANDONG GOLD OUTPUT--In the first quarter of this year, Zhaoyuan County, Shandong Province, topped 22,000 liang in gold output, fulfilling the annual target by 27 percent, and a 7.8-percent increase over the corresponding period in 1984. [Text] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 7 Apr 85 SK]

GUIZHOU CONFERENCE FOR BANK DIRECTORS--The provincial conference of directors of industrial and commercial banks concluded on 8 April. The conference decided that in this year's work, the industrial and commercial banks should grasp well four major tasks, that is [words indistinct] the scale of providing loans, supporting reform of the economic structure and party rectification, and correcting malpractices. The conference stressed that, when providing loans, we must take into consideration [words indistinct], the amount of capital involved, and the deposits of the organizations. We should attract a large amount of savings deposits, and change consumption funds into production funds. We should adopt various methods to increase the amount of enterprises' deposits, and actively attract fixed deposits and other kinds of deposits. Industrial and commercial banks should invigorate the business of providing loans, and help enterprises develop

the production of consumer goods as well as the tertiary industry. The conference urged industrial and commercial banks in various localities to resolutely correct new malpractices in the work of providing loans. The banks must strengthen the supervision over [words indistinct], so as to improve the operational results of capital. [Text] [Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 9 Apr 85 HK]

FILM DEVELOPMENT PLANTS--Beijing, 5 April (XINHUA)--Beijing film developing and printing factory is reducing prices by 11 to 14 percent. It has taken the lead in this industry in the Chinese capital. At the same time, the factory has asked the Ministry of Finance for a unified tax policy so that such factories compete under the same conditions. The Beijing Factory is the largest in China and in all Asia. It is equipped with the up-to-date equipment and technology. But it was hampered by a price system that led to the setting-up of many poorly equipped factories protected by local governments. For several years running, the Beijing Factory has been running at less than half of production capacity. The orders received in February this year equalled 3 days production. In these circumstances, the factory decided to lower prices and raised the slogan: lower prices and better service to win customers. [Text] [Beijing XINHUA in English 0740 GMT 5 Apr 85 OW]

CSO: 4020/176

MINERAL RESOURCES

BRIEFS

BARITE DEPOSIT FOUND--Beijing, April 6 (XINHUA)--A massive deposit of barite, estimated at 400 million tons, has been found on the border between Hunan and Guizhou Provinces, and the Guangxi Zhuang Autonomous Region. The deposit, believed to be larger than all the world's known barite reserves put together, is near the surface and suitable for mining, according to the Ministry of Geology and Mineral Resources. Barite is used in oil-drilling, paper and rubbermaking and the chemical industry. At present, China is producing around a million tons of barite a year, but plans to speed up mining. [Text] [Beijing XINHUA in English 0852 GMT 6 Apr 85 OW]

CSO: 4020/182

CONSTRUCTION

DENG XIAOPING COMMENTS ON CONSTRUCTION INDUSTRY, HOUSING

Beijing JIANZHU JINGJI [ARCHITECTURAL ECONOMY] in Chinese No 1, 18 Jan 85
p 22

[Article: "Comrade Deng Xiaoping's Talk About Construction Industry and Housing Problems"]

[Text] The CPC Central Committee Document Research Office's note: This is a part of comrade Deng Xiaoping's talk on 2 April 1980 with responsible comrades at the central level in which he put forth his guiding views about the position of the construction industry and housing policy in long-term planning, it is published here with his personal consent.

It is not without reason that the construction industry is considered to be one of the three pillars of the national economy in most capitalist countries. In the past we had not been paying much attention to the construction industry and only looked upon it as a question in the consumption sphere. Naturally the houses we constructed are for serving the people's standard of living. However, this department producing the means of consumption is also an important industrial department for developing production and increasing income. A concept that should be changed is that the construction industry is a money-losing business. It should be noted that the construction industry is an important department that can make money, increase revenue and accumulation for the state, otherwise, it cannot be explained why it is considered to be one of the three economic pillars in the capitalist countries. In long-term planning, therefore, the construction industry must be placed in an important position. In this connection, a developed construction industry can help solve the employment problem for a large number of people, and more houses can be built to better satisfy the needs of the urban and rural people. As the construction industry develops, it will also bring about the development of the building material industry.

Consideration should be given to a series of policies governing urban residence construction and the distribution of houses. Individual residents of cities and towns can buy houses and also can build their own. Not only new houses can be sold, old houses can also be sold. Payment can be made in full at one time and also can be made by installments payable in 10 or 15 years. With the selling of houses, rent may have to be readjusted. The rent should be readjusted in relation to the price of houses to make people give due

consideration as to whether it is worthwhile to buy a house. Consequently, it is necessary to study how to raise the rent step by step. If the rent is low, people will not buy houses. Different rents should be applied to houses in the bustling civic centers and remote places, in areas with good transport facilities and those with poor transport facilities and in the urban and suburban areas. In the future when rents are raised, low-wage workers and staff members should be given subsidies. These policies should be linked together in consideration. Houses may be built by encouraging joint state-private ownership or built by the people themselves with public aid, or by individuals themselves. Houses to be built in the countryside must be of new designs and should not stick to the old pattern of having four small houses in one courtyard; houses with one or more stories should be developed. One-story houses should be converted into houses with one or more stories to conserve farmland. Any houses with two or more stories to be built, must be suited to the needs of different areas and different types of residents.

12662

CSO: 4006/376

CONSTRUCTION

MINISTER RUI XINGWEN DISCUSSES URBAN, RURAL CONSTRUCTION

Beijing JIANZHU [BUILDING CONSTRUCTION] in Chinese No 3, 7 Mar 85 pp 2-3

[Article: "Reform Is the Key to Promoting Even Faster Development of the Undertaking of Urban and Rural Construction; Minister Rui Xingwen [5360 2622 2429] of the Ministry of Urban and Rural Construction and Environmental Protection Outlined the Work for 1985 at a Conference for the Ministry's Entire Body of Cadres"]

[Text] On 1 February, the Ministry of Urban and Rural Construction and Environmental Protection held a meeting for its entire body of cadres, and at the conference, Minister Rui Xingwen summarized the work situation in 1984 and made a plan for 1985, the key points of which are listed below.

In 1985, the major requirements of our ministry's work are: to consolidate the results from the first party consolidation, pay attention to the second party consolidation, do a good job restructuring the ministry's organization and readjusting the leading group, thoroughly implement "Resolutions on the Restructuring of the Economic System" of the Third Plenum of the 12th CPC Central Committee, regard the restructuring as key and promote an even faster development of the building industry, urban and rural construction, environmental protection and surveying. In light of these problems, we must pay attention to the following problems.

I. We Must Further Stimulate the Domestic Construction Market and Strive To Open Up the Foreign Construction Market

We must comprehensively and thoroughly implement the State Council's "Temporary Provisions for Problems in Restructuring the Building Industry and the Capital Construction Management System:" 1) We must continue to strive to promote a system of accepting bids for contracts, 100-yuan output value wage content and other responsibility systems and further open up the building system. This year, newly started civil construction projects and most industrial construction projects must actively create the conditions to implement a system of accepting bids for contracts. 2) We must further stimulate the building materials market and suit it to the restructuring of the building industry. We must do this by: broadly

establishing trade centers for building materials, engaging in spot trading and futures trading and making adjustments between excess materials and materials in short supply; by encouraging a variety of trades to enter the building materials industry, encouraging building materials enterprises to use all the funds that they can raise to open up building resources, developing compensatory trade and joint ventures with building materials enterprises, guaranteeing a supply of building materials and raising the competitiveness of contract bidding; and by striving to utilize the state's accumulated surplus of foreign exchange to import building materials and then subjecting them to market adjustment. 3) We must make design units that are socialized and that are like enterprises. We must collect fees from foreign countries, use a contract system domestically, develop design competition and raise the level of engineering design. 4) We must strengthen the management of the building industry, develop specialized cooperation and implement a work insurance system on a trial basis. 5) On the basis of reforming the rent system, we must strive to promote building products as commodities and make the building industry truly become a key pillar in China's national economy. 6) We must strive to develop our building industry abroad, go from labor exports to engineering construction, strive to export labor equipment and materials and cause the building industry to become one of China's key productive industries.

II. We Must Strive To Make Breakthroughs in the Restructuring of the Urban Construction System

Urban governments must truly concentrate their strength on paying attention to their planning, construction and management work, strengthening the construction of public facilities and carrying out comprehensive protection of the environment. They must put in order every type of connection in the construction of cities and open up the channels for construction funds. In order to do this, we must further solve the problems that exist between programs and plans and give full play to the comprehensive guiding role of city plans. This year, we must strive to complete the work of drawing up, examining and approving the comprehensive plans of cities and county seats. We must continue to promote housing as a commodity, carry out a reform of the rent system on a trial basis and develop the real estate system. We must adopt management methods to develop ways to open up paths to raise money and continue to promote the comprehensive development and completion of construction (including the construction of new areas and the transformation of old cities). We must strive to strengthen the construction of basic urban facilities and improve urban and environmental sanitation.

III. We Must Strengthen the Construction and Guidance of Small Cities and Towns, Especially Rural Market Towns

With the vigorous development of the rural commodities economy, a large portion of labor forces have amassed in market towns, and thus, the

key to our guiding work must be to do a good job in the construction of small cities and towns, especially market towns. We must organize technical personnel to go to the countryside and help implement the construction plan. We must organize the comprehensive development and completion of construction on a trial basis. At the same time, we must continue to pay attention to rural housing design and construction guidance, solve the problem of the supply of rural construction materials, convenience the peasants and withdraw currency from circulation.

IV. We Must Accelerate the Development of Environmental Protection and Surveying

With regard to environmental protection, mainly we must thoroughly implement the essence of the Second National Conference on Environmental Protection Work and pay attention to legislation, management and traditional educational work. We must emphasize bringing air and water pollution under control; we must strengthen the protection of the agricultural organic environment and nature and guard against pollution in small towns; and we must actively promote the development of environmental protection industries. At the same time, we advocate exercising a practical spirit. Each area must decide upon projects that they are going to bring under control and must strive for substantial results. As for the entire country, this year 15 projects must be run to bring pollution under control, such as setting up no-smoking areas in cities, controlling noise pollution, setting up clean factories and bringing pollution under control in key rivers and lakes.

As for surveying, we must concentrate our efforts on strengthening the function of government and business management and actively experiment with making surveying units similar to enterprises. We must pay attention to the work of inspecting the nation's land resources and provide surveying conditions for the construction of special economic zones and open coastal cities.

V. We Must Do a Good Job of Reviewing All of the Ministry's Work and Its Development Plan for the Seventh 5-Year Plan

Based on a forecast of the capabilities of consumers, the increased demands of the people for housing, gas and water supply, transportation (including roads and vehicles) and for areas of green grass and the programs and plans for the development of the housing industry, urban and rural construction and improved quality of environmental protection must be comprehensively balanced by the State Planning Commission.

VI. We Must Actively Promote Technological Advances

The building industry, urban and rural construction, environmental protection and surveying are all facing the problem of updating technology and new technological developments. Thus, at the same time as stressing

the reform of the scientific research system, each industry and department must select a significant scientific research project, organize their work force and import advanced technology. They must further improve and enhance the quality of the machinery and equipment of the building industry, urban construction and environmental protection, continue to concentrate on drawing up technical policies for the building industry and urban construction departments and strive to use new technology, new machinery, new equipment and new materials. At the same time, they must actively look into market forecast methods, organize their forces and strengthen inadequate scientific research.

VII. We Must Emphasize the Training of Talented Personnel

On the basis of investigative research, we plan to hold a fairly large conference on the training of talented personnel and to draw up a plan for accelerating the training of our ministry's advanced-, intermediate- and beginning-level technical personnel and managers. We must particularly concentrate on the training of rural construction personnel. We must strive to have a training school in every county or set up two or three advanced and intermediate specialized classes for training talented rural construction personnel.

VIII. We Must Strengthen Legislative Work

We must strive to accelerate the progress of our ministry's legislative work and as quickly as possible we must channel the results of the reform of the building industry, urban and rural construction and environmental protection onto the track of a legal system. This year, we plan to propose a system of laws and regulations for every aspect of our work and business (for example, we will regard "Laws of the Building Industry" as our basic laws and regard "Regulation for Contract Bidding," "Regulations for Building Design" and "Regulations for Building Work Insurance" as single sets of laws in the building industry's system of laws and regulations). We are also planning on proposing a legislative program. We are emphasizing the trial publication of "Regulations for Municipal Planning" and "Environmental Protection Laws Preliminary" and are striving to draw up and issue a few new laws and regulations.

IX. Based on the principle of separating the government and enterprises, simplifying government power and strengthening the function of government and business management, we must further readjust the organizational setup of the ministry and provide a leading body at all levels according to the conditions of the four modernizations.

X. On the basis of summarizing our experiences from the first party consolidation, we must do a good job in the second party consolidation. We must use party consolidation to promote reform and must use the results of reform to check party consolidation. We must greet the CPC National Congress with outstanding successes in every aspect of this work.

12437

CSO: 4006/477

CONSTRUCTION

ENGINEERING PROJECTS IN XIZANG NEARING COMPLETION

OW030755 Beijing XINHUA in English 0631 GMT 3 Apr 85

[Text] Beijing, 3 April (XINHUA)--Twenty-four of the 43 on-going engineering projects in Tibet were to be completed and put into use by 1 September 1985, the 20th anniversary of the founding of this autonomous region.

This was disclosed by Lin Daoxun, assistant chief engineer of Tibet's communications department, who is here attending the current national people's congress session, in an interview with XINHUA today.

Another 10, begun last May, would be completed by the end of this year Lin said.

The urgently needed projects include power stations, transport facilities, factories, hotels, hospitals, schools, theaters, sports grounds and stores.

They were given by economically developed Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Fujian, Shandong, Sichuan and Guangdong at the request of the autonomous region.

Nineteen projects, costing 450 million yuan, were in Lhasa and the rest in Ngari, Ngazu, Qamdo, Xigaze and elsewhere.

The parth Central Committee set up an economic advisory group for Tibet last year to help the regional government work out plans of development and organize aid programs by central government departments and various areas of the country.

Lin Daoxun said about 10,000 technicians were sent to Tibet last year and 12,000 more would go this year.

While modern construction materials were replacing wood and stone in some civilian projects, the engineer said, Tibetan architectural style would be retained.

Commenting on the aid program, NPC Deputy Gamba Chilia said: "These projects illustrate central government concern for the Tibetan people, who are grateful."

Gamba, 56, who is director of the Ihasa hospital of Tibetan medicine, mentioned in particular free medical service for Tibetans and medical workers sent to Tibet.

Work would start next year, he said, on an eight-million-yuan college of Tibetan medicine, the first of its kind, funded by the Ministry of Public Health.

CSO: 4020/178

CONSTRUCTION

BRIEFS

GUANGZHOU ZHU JIANG TUNNEL--The Guangzhou People's Government has decided to construct a tunnel beneath the Zhu Jiang between Dadansha and Etan. Yesterday, relevant departments presented a plan to build a "three-passageway, four-vehicle" tunnel to experts assembled at the Zhu Jiang Tunnel Feasibility Study Conference. The northern entrance to this tunnel will be at Huangsha, the southern exit will be at Fangcun, the total length of the roadway will be 1,130 meters, the section under the river will be 665 meters long and investment for construction will total approximately 100 million yuan. This site was selected so as to minimize disruption and building demolition and removal and to facilitate rational linkups with major arteries. The plan recommended by relevant departments includes two passageways for one-way motor-vehicle traffic and one passageway that is in the short run to be used as a two-way slow-vehicle (bicycle) route and in the long run is to be changed into a properly divided roadway. Xu Shijie [6079 1102 2638], Zhu Senlin [2612 2773 2651], Tang Guoliang [3282 0948 5328], Lai Zhuyan [6351 4554 1484], Shi Anhui [4258 1344 3189] and other responsible members of the city government listened to reports from relevant departments, and 50-odd experts in various fields raised technical suggestions relating to the construction of the tunnel. [Text] [Guangzhou NANFANG RIBAO in Chinese 15 Jan 85 p 1] 12431

SHENZHEN TO BUILD FIRST SKYSCRAPER--Shenzhen, April 11 (XINHUA)--Preparation is under way for building China's first skyscraper in Shenzhen, one of China's four special economic zones. Upon completion, the 88-story pentagon-shaped structure with a total floor space of 458,000 square meters will have a revolving restaurant on the topmost floor and a helipad. The building, which will have glass walls, is being built by a consortium of five financial groups from France, Canada and Monaco, with a total investment of 450 million U.S. dollars. [Text] [OW111146 Beijing XINHUA in English 1116 GMT 11 Apr 85]

FUNDS FOR HAINAN PROJECTS--Guangzhou, April 11 (XINHUA)--A total of 403 million yuan has been earmarked for investment in 24 key construction projects on Hainan Island, Guangdong Province, during 1985, officials here said. The investment will be 12.9 percent more than last year's for infrastructure construction on China's second-largest island, they said. New construction projects include Qinglan Harbor and Chahe Highway Bridge. Among the 24 key projects, 18 were started last year, such as the second-phase construction of Haikou Airport, two 5,000-ton berths in Haikou Harbor, the Haikou Thermal Power Plant and a microwave communications installation. Hainan Island is one of China's coastal areas allowed to adopt flexible policies in its opening to foreign trade and investment. [Text] [OW110926 Beijing XINHUA in English 0804 GMT 11 Apr 85]

DOMESTIC TRADE

TREND OF INCREASED REGIONAL ECONOMIC, TECHNICAL COOPERATION NOTED

Beijing LIAOWANG [OUTLOOK] in Chinese No 4, 21 Jan 85 p 5

[Article by Chen Ming [7115 2494] and Wei Meng [2607 5536]: "A New Trend of Economic and Technical Cooperation"]

[Text] Following vigorous developments in China's economic reform, there is now a tide of economic and technical cooperation among various areas, departments and enterprises:

Jiangsu Province is first in the country in terms of the scale of economic and technical cooperation between Jiangsu and the fraternal provinces, municipalities, and autonomous regions. The cooperation is multilevel, multi-channelled, and takes various forms. In the past year, Jiangsu has bought from other provinces large quantities of coal, timber, steel and other resources that are in short supply. At the same time, Jiangsu has helped its fraternal provinces and municipalities with its own technology, funds and personnel so that all help each other and develop together. According to incomplete statistics, Jiangsu's cooperative goods and materials now account for more than one-quarter of the total national sum; the province is first in the nation.

Heilongjiang Province has long-term economic and technical cooperation with the five northwestern provinces. The province's cooperation ranges from economic and technical goods and materials cooperation on through to personnel exchanges. The province has signed 52 economic and technical cooperation agreements.

A short while ago, in order to jointly develop the northeastern region, an economic and technical cooperation conference was held in Shenyang. The conference decided to fully develop Heilongjiang's coal and coke, Jilin's iron ore, and Liaoning's smelting and processing, and to jointly develop the steel and coal industries of the northeast in the future. The conference decided to relieve the shortage of energy resources by utilizing various channels to help Liaoning construct a power plant. They also agreed to recruit various experts on a reciprocal basis.

To develop and utilize fully the energy resources of the Nei Monggol Autonomous Region, the region will offer favorable terms to develop economic cooperation with the fraternal provinces, municipalities and autonomous regions.

Fujian is practicing various forms of economic cooperation and has 300 projects with the 19 provinces, municipalities and autonomous regions; 9 departments of the central government; and 12 institutes of higher education.

At present, economic cooperation is deepening in form and substance nationwide. It has grown from general technical exchanges to planned and organized technical cooperation and the transfer of scientific and technical results. Short-term cooperation is turning into stable and long-term cooperation. Cooperation among areas, departments, and enterprises is expanding into central cities supporting territories. Simple raw material cooperation is becoming technological transfer and personnel training.

From this economic and technical cooperation that is multilevel, multichanneled, and takes various forms, a network has gradually taken shape which allows for a rational flow of funds, technology and personnel, and it is rationalizing the economic structure of the whole nation. The network breaks through regional and departmental barriers and central and local divisions.

Various areas, departments, and enterprises are jointly developing, boosting each other's strengths and making up for each other's weaknesses, offering each other preferences and benefits, and mutually assisting each other via cooperation. Practice proves that cooperation is beneficial to scientific and technical exchanges, it promotes the progress of technology and it means intelligent development and personnel training. At the same time, it enriches the number of goods on the market, improves the standard of living of the people, and plays an important role in making the state economy prosper.

The tide of wide and large-scale economic and technical cooperation indicates the prosperity and the development of China's economy. Such cooperation is also an objective requirement for modern economic development. Without a doubt, socialist production should be the socialization of large-scale production. Nevertheless, due to the influence of several thousands years of a feudal tradition and 10 years of calamity, China's socialist economy has stagnated by and large in a backward state of small-scale production. The development of the economy is extremely unsuited to China's socialist system. The great historical turn of events made by the Third Plenum of the 11th CPC Central Committee has improved and modernized the appearance of China's economy. China's economy is gradually assuming the path of large-scale socialized production and is evolving further toward a large modernized economy. Under these circumstances, the objective needs of economic development must break down the barriers of various areas and departments. The establishment of a mutually beneficial supportive and joint development relationship across the economy is taking swift and inevitable shape nationwide. Such a tide is producing a powerful force for the exchange of goods and materials,

technology, personnel, and even ideas among various areas, departments and enterprises. The tide is allowing essential productivity factors to become mobile and reorganize on a large scale, meaning additional productivity and therefore enormous economic activity for China's economic development. At present, the cooperation goes beyond intra- and intercity bounds; it is also swiftly developing between city and countryside. A bright future is unfolding.

This gratifying situation resulting from economic cooperation tells people that mutual cooperation is an objective need determined by economic development, regardless of whether it is among areas, departments or enterprises. It is founded on the basis of mutual benefit and joint development. It is an exceptionally lively form of state planning and a major component part of the state plan.

The direction of the economic reform has been made explicit; the road has been cleared. You can be sure that the trend of large economic and technical cooperation and unity will promote great developments in production and the construction of China's modernized socialist economy. We must accelerate the process of this kind of large cooperation and unity with the spirit of reform.

12615

CSO: 4006/403

DOMESTIC TRADE

TAINJIN TAKES MEASURES TO SOLVE PEASANT TRANSPORT PROBLEMS

Tianjin TIANJIN RIBAO in Chinese 26 Jan 85 p 1

[Article by Cai Zhipeng [5591 1807 7720]: "Transport Bureau Will Not Set up Single Family Enterprises To Support Competitors; Will Help Individual Rural Transport Households Overcome Three Problems"]

[Text] Individual rural households engaging in transport have "three problems." One, vehicles are hard to buy; two, vehicles are hard to run; three, vehicles are hard to repair. The transport bureau party committee destroyed the single family enterprise ideology after studying the central government's decision regarding reform of the economic system. The committee will support individual rural households engaging in transport and help them solve the "three problems."

The bureau party committee's first problem to solve is that of individual households finding it tough to buy vehicles. A "Motor Vehicle Business Course" was opened in an auto parts company. In 1984, the bureau's party committee supplied 200 vehicles to rural specialized and individual transport households in line with the principles of giving quotas to counties, providing vehicles to households, simplifying administrative structures, prohibiting price additions at each level, and reducing the burdens upon peasants. Peasants need not leave town to purchase satisfactory cars priced according to state regulations. This year the bureau will provide 600 vehicles in two batches to rural transport households.

In the past, individual households were transporters but the vehicles from these households could not move because of various checkpoints set up along the roads by public security, transportation, and city government organs. The transport bureau invited various concerned bureaus to Jixian County discussions. Now the bureau is preparing to set up a "three-in-one" united checkpoint and unify the administration of roadways. This will be a great convenience to individual transporters.

To solve the problem of transport households finding it hard to repair vehicles, all transport plants under the transport bureau are opening wide their doors to fix vehicles that do not belong to them. A united repair shop has been opened by six transport vehicle plants and Yang Village. The shop will

give priority to taking care of individual households. It will simplify vehicles repair procedures and give preference to supplying good parts. The vehicle parts company is actively supplying parts to individual households and it set up a business outlet in Liqizhuang Village.

The "three problems" of individual households are being preliminarily solved thanks to vigorous efforts by the transport bureau. The leadership of the bureau said that if we want to be more competitive, the state's transport enterprises must keep up with individual enterprises. We must strive to contribute to Tianjin's transport work.

12615

CSO: 4006/391

DOMESTIC TRADE

DIFFERENCES BETWEEN SOCIALIST, CAPITALIST MARKET COMPETITION

Guangzhou YANGCHENG WANBAO in Chinese 23 Jan 85 p 2

[Article by Gao Weiwu [7559 0251 2745]: "A Simple Look at the Features of Socialist Market Competition"]

[Text] Competition is a social phenomenon that is unavoidable as long as goods are produced. Goods are still produced in a socialist society, so competition is naturally unavoidable. Nevertheless, when seen in the light of the last few years of China's practice, there are at least the following differences between socialist and capitalist market competition.

1. In socialist market competition, the readjustment of partial and local economic interests is nonantagonistic.

In the private ownership system under capitalism, capital hires labor to produce goods. The inevitable contradiction between individual and social labor in the production of goods is manifested in the contradiction between private and social labor. The capitalist class exploits and carves up surplus value by competition. The law of surplus value is the motive force behind this competition and not the law of value. The law of capitalist groups seeking maximum profits while competing to carve up the entire society's surplus value is manifested in the basic economic conflict of interests. Therefore, capitalist market competition is a life-and-death, extremely intense and cruel matter. All dirty and base tricks are acceptable, no holds barred. Struggles between capitalist groups often is the result of trying to seize markets.

The nature of socialist market competition is fundamentally different. In the public ownership system under socialism, goods are produced by the united labor of an enterprise. The contradiction between individual and social labor in the production of goods is only manifested in the difference between group and social labor. First of all, all social profits are distributed in a planned way. The state is assured of coming out on top in the distribution of the entire socialist society's profits by utilizing taxes, prices, credit and other economic levers. Socialist market competition takes the form of group (enterprise) competition. Competition only regulates the problem of dividing an enterprise's retained profits. An enterprise's victory in competition means first of all an increase in the state's tax revenues and improvement in the welfare of the entire people. Therefore, various competing enterprises

have identical fundamental economic interests. Competition is merely the readjustment of partial and local interests. The laws of value and distribution according to labor motivate this competition. The basic channels for and the goals of competition are to improve techniques, economic management and productivity, to develop socialist production swiftly, and to satisfy the needs of the people's lives.

2. Socialist market competition is controlled in a planned and directed way, and it is consciously utilized.

Under capitalism a unified and common economic interest for all of society cannot exist, nor can there be a common economic plan, because of the oppositions between capital and hired labor, profit-sharing between capitalists, and individuals and society. Market competition is relied on to adjust and solve the development of the whole society and economy, the readjustment of various economic relationships, and the achievement of balanced relationships between society's reproduction and objective needs. Enterprise planning follows market competition under capitalism. With respect to the entire society and economy, the law of value has a spontaneously generated function. Market competition is also totally blind.

Socialism is a planned commodity economy that consciously implements the planned management of society. Planned control is mainly relied on for the economic development of society, the coordination of various economic relationships, and the achievement of balanced important economic relationships. Goods are still produced under socialist production, so naturally there still are markets and the need for market regulation and competition. Nevertheless, such regulation and competition are mainly used to solve microeconomic relationships, namely, the problem of power within enterprises. Examples include the technological transformation and management of enterprises, how to make quick market responses and to produce, supply and sell, as well as how to coordinate between enterprises. Ultimately, all of these are done to achieve an overall balanced state economy. The application of economic measures to the development of the whole society and economy serves the planned commodity economy. There are two things going on in market adjustment and competition right now. One is used by economic departments and organizations in a planned and step-by-step fashion, such as the government's conscious readjustment of the price of a certain commodity, invoking competition to stimulate or restrain production. This adjustment is in itself conscious and planned. It is also a kind of planned adjustment that utilizes economic measures itself, or a planned market adjustment. The other kind of adjustment is planning within a certain area, allowing the law of value to adjust itself. This is not a planned adjustment in itself. Nevertheless, it is utilized by the planned economy and controlled by the entire unified state plan. It is implemented under the guidance of planning. Therefore, considering the whole, socialist market competition is the conscious application of the law of value in a planned way. Because our society's economic conditions are still inadequate, society's practice and experience are still insufficient, and our self-determination has been greatly hampered, but nonetheless, in a socialist society, the

objective economic laws that have always ruled the lives of the people with alienation have been recognized and utilized and they are beginning to be ruled by the people.

3. Socialist market competition cannot lead to economic crises or the polarization of production.

The cause of capitalist economic crises is the private ownership system. This is a fundamental social contradiction between socialized productive power and ownership by private capitalists. The basic cause of the capitalist polarization is exploitation by capitalists and the accumulation of capital. Nevertheless, upon this private economic basis, market competition greatly strengthens the anarchy of production and promotes the turbulent and cyclic nature of economic crises, thereby exacerbating the polarization of society. Although capitalist market competition also promotes the rapid development of social production, it also creates economic havoc and a lot of damage. It creates various social tragedies and misfortunes.

Socialist production relationships are suited to the development of socialized productive forces. Socialist production is done to satisfy the livelihood and needs of the members of society. If the state can readjust the balanced relationships between social production and consumption, it will engender proportionate increases in production, consumption and purchasing power as well as the supply of market goods. Therefore, under normal conditions, socialism will not give rise to a shortage of purchasing power or its complementary surplus of commodity production because the economic base of crises and polarization does not exist.

Of course this is not to say that under socialist market competition there cannot be any winners and losers. Facts prove that a few enterprises that are no good in business just have to close down. This is a normal case of the new superseding the old and it greatly promotes the economy. At the same time, China's socialist enterprises are collective labor organizations. The laborers themselves have no direct responsibility over enterprises. An enterprise's losses or closure does not mean insolvency for the individual worker. The state must ensure the livelihood of these workers. Naturally, wage, income and economic livelihood will unavoidably be affected for a time. This is a problem of how much to divide according to labor and is not the polarization of rich and poor. The livelihood problems of the small number of individuals who suffer setbacks can be solved via associations and social security. New jobs can be arranged, unlike in a capitalist society where workers would be thrown into the ranks of the proletariat [as published].

Of course, this is not to say that there cannot be blindness and passivity under socialist market competition. Nevertheless, such things are partial and temporary. They can be eliminated via conscious planning adjustments and controls.

12615

CSO: 4006/391

DOMESTIC TRADE

HUBEI ESTABLISHES HORIZONTAL ECONOMIC CONTACTS

Good Situation Reported

HK100739 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 9 Apr 85

[Excerpts] In the course of resolutely checking new malpractices, various places in the province have attached importance to drawing distinctions and safeguarded the initiative of cadres and masses in carrying out reforms. In line with the principle of opening to the outside and invigorating the internal economy, the province has actively established horizontal economic contacts among fraternal provinces, and between the province's rural and urban areas, thereby creating a good situation in which both rural and urban economies develop in a coordinated way.

Since the beginning of this year, the province has formed and sent leading comrades to lead seven economic delegations on behalf of Wuhan, Huangshi, Shashi, Shiyan, Yichang, and Xianning. The delegations visited Shanghai, Guangdong, Hebei, Fujian, and other provinces and cities. Through investigations and negotiations on economic and technical cooperation, the delegations achieved gratifying economic results. In mid-March, at the national conference on cooperation in material supplies, the province's delegation signed with fraternal provinces agreements worth a total of 100 million yuan, including the import and export of steel products, coal, timber, rice, and ground phosphate rock. This shows an increase of more than 30 percent compared with the same period last year.

In the wake of readjusting the province's rural production structure, there has been a good situation in the economic and technical cooperation between the rural areas and large and medium-sized cities.

The development of horizontal economic contacts among provinces, and between the rural and urban areas has promoted the readjustment of rural production structure.

Station Commentary

HK100827 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 9 Apr 85

[Station commentary: "Vigorously Develop Horizontal Economic Contacts and Establish Modern Socialist Relationships Between the Urban and Rural Areas"]

[Excerpts] Now, in the wake of readjustment the rural production structure, economic and technical cooperation among provinces, and between the province's urban and rural areas, have been greatly developed. We should guide this good situation so that it can constantly become better.

We shall be unable to develop the rural production structure without the coordination of productivity promotion from the urban areas. Also, the full-scale urban reforms provide favorable conditions for the development of the rural economy. We should spread in a planned and step-by-step way the urban productive forces to the rural areas. This is a strategic measure that plays a very important part in the development of urban and rural economy as a whole.

The present reform of the rural production structure involves departments of the national economy. In particular, it has a close relationship with the urban areas. Once we have further broadened the contacts between the urban and rural areas and strengthened the horizontal economic contacts between the urban and rural areas the urban areas' technology, knowledge, information and advantages of industrial techniques can play their roles. Therefore, we can gradually develop an economic network linking both the urban and rural areas, which depends on the urban areas.

For this reason, in the course of reforms we should open the doors of the urban and rural areas. Comrades in charge of urban and rural work should take into consideration the overall situation in the urban and rural areas, promote contacts between urban and rural areas, and gradually establish a modern socialist relationship between the urban and rural areas characterized by levels of division of labor in the production structure.

The urban areas should make full use of the advantages of industry, technology and information to promote the readjustment of the rural production structure. Furthermore, we should realize that qualified personnel are the most effective and important part when spreading the urban productive forces to the rural areas. We shall be unable to invigorate the rural areas without qualified personnel. More and more peasants have gained a clear idea about this point.

Previously there was the saying: There will be no stability without agriculture, no prosperity without industry, and no invigoration without commerce. Now we have to add something more, that is, no briskness without qualified personnel. Therefore, it is not enough if we only develop horizontal economic contacts between the urban and rural areas; we should adopt measures to help peasants develop more qualified personnel who have ideals, possess technical skills, and observe discipline.

It is hoped that leading comrades at various levels will take a positive attitude toward the work of guiding the new rural industries to cooperate with the urban ones; will adopt effective measures to formulate manifold, multilevel and socialized service systems; will break through the bounds of old conventions; will create favorable conditions for the development of new rural industries; will establish at an earlier date a well-coordinated open economic network; will help the province achieve at an earlier date the lofty goal of quadrupling the national economy; will stand in the forefront of the four modernizations; and will make new contributions to the lofty goals and the four modernizations.

CSO: 4006/531

DOMESTIC TRADE

PUBLIC COMPLAINTS ABOUT PROBLEMS BUYING SMALL ITEMS SINGLY

Tianjin TIANJIN RIBAO in Chinese 26 Jan 85 p 2

[Article: "Readers Continue To Write in With Ideas for Improving Small Commodity Production and Management: Make It Convenient for the Masses, Don't Just Look at Making Big Bucks"]

[Text] We have received numerous letters from readers since publication of the voice of the masses in an earlier edition, called "Little Sewing Odds and Ends That Families Can't Do Without." These letters express advanced thoughts about ideological and practical questions regarding the management of small commodities under the present reform of the commercial system. A summary is provided below for the reference of production and management departments.

Some readers feel that it is hard to buy sewing odds and ends and other small items on the market right now while things like rings, necklaces and chokers are in plentiful supply. Therefore, it would be more accurate to say that it is hard to buy low-cost, low-profit goods. One reader said that since the winter she has "browsed" in several stores. She asked a shoe materials store manager if he carried any shoe hooks or eyes. He pointed to a package of eyes and said, "We have them, but they are not for retail sale." She anxiously asked, "Who's going to buy a whole box of eyes to make a cotton shoe?" Then the manager said what was really on his mind, "We can't count on those items to make money." This is the same as native produce stores not selling single vanishing cream jars, or repair and supply stores refusing to sell small parts. Their business must also be, "We can't count on those items to make money."

So what is the point of doing business? Some readers offered opinions. They feel that while the industrial and commercial departments are all being reformed right now, of course they have to look toward economic results in business, but they cannot neglect the effects on society. The masses are very busy when they go into a store to buy something. If the items are not in stock today and tomorrow the shopper leaves emptyhanded, won't this situation not only affect the lives of customers but further make the shopkeepers' "courtyards be desolate, and carts and horses seldom seen"? A store's reputation is directly related to economic results. One customer put it well: "The commercial reform takes the lead, top quality and service

are number one." This proves that the commercial reform must win the praise of the masses. Their applause has to be sought above all else in business.

Some readers offered ideas about how to produce and sell small items. Some proposed making the fruits of economic results and social services part of the contract responsibility system. Others suggested the state implement a tax policy to support small items to encourage the concerned departments to produce and sell them. Still others recommended setting up a lane for small items on Guyi Street.

He Couldn't Buy Tacks Even After Visiting More than 10 Stores

Dear Comrade Editor:

I make furniture and need to use six to eight small tacks. I visited several districts and went into more than 10 small hardware stores to buy these tacks, but only found disappointment. After asking the store clerks, I discovered that the tacks are in the hands of small hardware wholesales. The wholesalers will give retail stores a package of tacks only if they stock 100 yuan worth of hingers, handles and other building goods. However, building supplies are hard to sell so the stores don't want to stock them. Therefore, you can't count on being able to buy tacks. In this way, the contradiction between wholesalers and retailers is shifted onto consumers. I hope that the concerned departments will show the masses some consideration.

Cheng Yan [A Sincere One]

12615

CSO: 4006/391

30 April 1985

DOMESTIC TRADE

BEIJING FRIENDSHIP STORE DOES LARGER BUSINESS

OW110938 Beijing XINHUA in English 0903 GMT 11 Apr 85

[Text] Beijing, April 11 (XINHUA)--The Beijing Friendship Store, China's largest sales center for top-quality goods did 121 million yuan (about 43 million U.S. dollars) of business last year, more than 50 percent over the previous year, according to Zhang Zengde, the store's general manager.

Zhang, 54, attributed the success to better service and a surge in the number of customers.

Last year, the store received more than 2.5 million foreign and overseas Chinese customers, as well as 220,000 domestic customers who attended the special evening sales. This compares with a total of 380,000 customers (nearly all foreigners and overseas Chinese) in 1973, the store's first year of operation.

Zhang noted that his store opened a branch in Donghuamen Street to foreigners and opened the main shop to Chinese and foreign customers in the evening since June 20 last year.

Changes such as open display counters, exhibition sales, commission sales, the acceptance of certain credit cards, the expansion of services including transport, mail order, repairs, garment making, and meat- and fish- processing, have all contributed to the increase of business, Zhang said.

The store plans to further expand its business this year. New services will include exhibition sales of traditional Chinese paintings, garments and other seasonal goods, and currently on display are more than 400 traditional Chinese paintings contributed by the Zhonghua Chinese Painting Society, some of them works of art.

Another branch will be built in the Qianmen Business Center south of the Tiananmen Square.

An expansion to the main shop building will enable the friendship store to offer new services, including a snack bar, a color photo service, a document duplicating room, an engraving counter for seals, a souvenir stall, doorstep delivery and expanded use of credit cards.

"Business prospects are very bright this year," said the general manager.

"Already, the turnover in the first quarter has nearly doubled that of the same period last year, and the number of tourists are also expected to increase, bringing us more business.

"We shall increase our commodities on offer from the last year's 85,000 varieties to more than 100,000," the general manager said.

CSO: 4020/180

DOMESTIC TRADE

ON HOW TO ENCOURAGE PRODUCTION OF HIGHER QUALITY FARM PRODUCTS

Beijing LIAOWANG [OUTLOOK] in Chinese No 4, 21 Jan 85 p 6

[Article by Zhou Yichang [0719 6318 2512]: "Top Price and Top Quality; What Is the Key to Improving Agricultural Product Quality?"]

[Text] China's peasants, who have been getting rich in recent years, are beginning to pay attention to the nutritional value of their food and drink and to think about the styles of the clothes they wear. Nevertheless, the quality of grain, meat, cotton and other agricultural products that are eaten and worn still does not meet market standards.

China's staple foodstuffs of rice, corn and wheat still have quality problems. Only on holidays can people get several jin of the top-quality rice that they like, while polished long-grain nonglutinous rice and second-grade rice is greatly overstocked. It is said that more than 60 percent of the demand for husked rice on the international market is for whole grain polished rice. At present, three-quarters of China's total rice production is of low-grade husked rice. The state produces little top-grade rice.

Therefore, China is number one in terms of husked rice production, but the volume of exports is behind Thailand, the United States, Pakistan, and Burma. Sales of wheat, which is liked by the northern Chinese, are all right, but the main problem is that it has a low protein rate. Considering corn, the international market demands an entirely yellow color but most of China's hybrid corn is speckled yellow and white.

With respect to cotton fiber, the main problem with quality is seen in its low strength and inferior maturation rate. Fiber lengths are relatively unitary. At present China's textile industry has a 48 percent demand for 27 mm spun cotton, but domestic production only accounts for approximately 30 percent of the total output. The industry has a 28 percent demand for 29 mm spun cotton but output is up to approximately 50 percent. At the same time, because fiber strength cannot meet demands, exports of raw cotton cannot bring a good price. More high-quality textile goods cannot be made for export either. Thus, on the one hand, cotton is greatly overstocked and peasants "find it hard to sell cotton," on the other hand, we still have to import cotton to satisfy the needs of spinning multifiber yarn count cloth.

The international market needs two main types of rapeseed. One is high erucic acid rapeseed, which has a more than 60 percent erucic acid content. This variety of rapeseed has a rather high economic value after being processed into industrial oil. The other kind is edible rapeseed, with a less than 5 percent erucic acid content. Most of China's rapeseed has an erucic acid content of approximately 40 percent, not close to either end of the scale, so it is unsalable on the international market. Consequently, if China's rapeseed production were to expand just a little, overstocking would result and we would have to restrict production.

China's meat structure is still irrational: there is a lot of pork but little lamb, beef, or chicken. In 1983 the worldwide hog and cattle breeding ratios were 770 million and 1.22 billion head, respectively, or fewer hogs and more cattle. China's ratio was the reverse, with 300 million hogs and 70 million cattle. Hogs are the king of China's six domestic animals, but most hogs are the fatty pork variety. There is less lean pork. Thus, in the market no one cares to ask about fat meat but lean meat is scarce.

In sum, there has been a change in the consumer market since the people's standard of living has risen. There is now a surplus of some varieties of agricultural goods that used to be in short supply. The demand for these goods by the people and by commodity production can no longer be met.

How can we change the present passive situation? In the past year, the leading comrades of the central government have often pointed out that we have no authority to limit production, but only a duty to find sales markets for the peasants. China must pay attention to improving the quality of agricultural products and make them suited to the needs of domestic and foreign markets if we want to become a major exporter of grain, cotton and oil. The crux of the matter now is to create a top-quality, high-yield viewpoint which is comprehensive and we must accelerate the cultivation of new varieties of these goods. As soon as possible, we must actively develop and popularize the superior goods which we already have instead of the inferior ones. There is a lot of potential. For example, we can vigorously develop and popularize China's special varieties of top-quality rice, like Xiaozhan, Tianjin rice; Hunan HA7931704 and -7 top-quality rice, as well as sweet [xiang 7449] rice and xue [5877] glutinous rice. With reference to cotton, we are cultivating a number of varieties that are top quality and high yield. Around the country this year we are cultivating 81 new strains of rapeseed with a firm erucic acid content of less than 10 percent. Considering foodstuffs, some top varieties of wheat, lean pork, and milch goats have come out.

Many factors affect the speed with which top-quality varieties of goods are popularized. Nevertheless, this reporter feels that the most important reason is that we have not really implemented a top-quality, top-price policy. In one way this means that we have not realized the principle of distribution according to labor. Naturally this will affect the peasants' enthusiasm for popularizing good varieties. It is certain that the peasants could attain quite a lot of material benefits for raising fine varieties if the concerned departments could actually attain top quality and price. If fine varieties can be popularized quickly, then the quality of China's agricultural goods has to improve greatly.

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CSO: 4006/403

DOMESTIC TRADE

BRIEFS

DISCOUNT LOANS HELP COMMERCIAL ENTERPRISES--Beijing, April 9 (XINHUA)--Discount loans of 120 million yuan have been arranged for technical renovation of state-owned commercial enterprises, the ECONOMIC DAILY reports today. Eighty percent of the loans, arranged jointly by the State Economic Commission, the Ministry of Finance and the Industrial and Commercial Bank of China, will go to the food industry. A number of factories closely related to people's daily diet, covering pickled vegetables, condiments and pastry, will be improved. Historically famous shops, restaurants and laundries will also be helped. The first batch of 100-million-yuan loans were issued in 1983. [Text] [OW091004 Beijing XINHUA in English 0951 GMT 9 Apr 85]

CSO: 4020/180

FOREIGN TRADE AND INVESTMENT

CHEN MUHUA ON PROBLEMS, WAYS TO IMPROVE FOREIGN TRADE

Beijing LIAOWANG [OUTLOOK] in Chinese No 2, 7 Jan 85 pp 20-21

[Article by Huang Guowen [7806 0948 2429]: "Our Foreign Trade Must Take an Entirely New Road--While in Zhejiang Chen Muhua Discusses How To Enliven Foreign Trade"]

[Text] In early winter in Zhejiang, the sunlight was soft and the earth was green and yellow. While there, Chen Muhua, member of the State Council and minister of the Ministry of Foreign Economic Relations and Trade, was accompanied by comrades Cui Jian [1508 0256], and Zhuang Yumin [8369 5148 3046], deputy chairman of the Advisory Commission and director of the Foreign Economic Relations and Trade Department, Zhejiang Province, respectively. They inspected 10 prefectures and cities in the province by van, going to the Zhou Shan Islands in the east; to the Lishui mountainous area in the west; to the famous city of Wenzhou in the south, on the east shore on the Ou Jiang River; and to the Hangzhou-Jiaxing-Huzhou plateau in the north. While talking with leading comrades in various areas along the way, the discussions revolved around the foreign trade reform, how to develop foreign trade, and how to enliven it. Many opinions were given. One sentence sums it up: Our foreign trade must take an entirely new road!

Everyone Must Support the Foreign Trade Reform

Comrades from Hangzhou, Jiaxing, and Huzhou said that the foreign trade administration system used to be overstifling and enterprises had no authority. After hearing this, Chen Muhua said that a reform of the foreign trade system was imperative. The State Council has approved a reform plan for economic departments. The reform will be fully underway in 1985. Based on the spirit of the Third Plenum of the 12 CPC Central Committee, this plan reaffirmed that the general direction and central link of the reform must be to enliven enterprises under the premise of having uniform relations with the outside world. The specific steps are: 1. We must practice a policy of separating political duties from those of business, and change the practice of suffocating and overstifling enterprises. Every foreign trade corporation and enterprise must become socialized and specialized. They must become economic entities which manage themselves and practice independent

accounting. No economic department shall be a "big boss" directly managing business again. Economic departments must "release their hooks" from enterprises and serve the entire society and their entire respective trades. When performing the functions of political organizations they must primarily stress administrative management, macroeconomic guidance and multifaceted service work. 2. We must turn the export purchasing system into an agency system. In the future, economic departments will generally not make foreign trade purchase plans or allocation plans. Enterprises can freely entrust port companies to act as agents for exporting goods without the restrictions of administrative divisions. The port will charge agency fees, but the enterprises themselves will be responsible for profits or losses due to exports. 3. We must integrate work and trade, technology and trade, and imports and exports. We must link up enterprises which produce export goods and those which handle foreign trade so that goods will be suited to the market and that there will be a timely feedback of information. We must integrate import/export trade and technical transfer, introducing needed technology via trade. We must integrate imports and exports, making imports drive exports or vice versa, and make all foreign trade have a dynamic influence.

Chen Muhua said that the state will adopt several reform policies in order to motivate and invigorate foreign trade enterprises. 1. The state will clearly determine how to divide foreign exchange reserves. There will be a large increase in the proportion given to production and management enterprises. 2. With regard to the uniform appraisal of export costs for commodity categories, the state will not practice the "same big pot" kind of uniform contracting and accounting. 3. The state will use economic measures to foster the development of export commodity bases. The support funds will no longer be gratis allocations but will be preferential loans selected by commodity base development corporations.

Chen Muhua emphasized that the reform of the foreign trade system must have everyone's active support. The thinking of comrades at every level of the party committees and the government must be more enlightened and their vision must be set on farther sights. We cannot always be yearning for the old uniform income and expenditures, nor can we keep thinking that money is dependable only if we control it ourselves. At the same time we must pay attention to the overall situation, firmly support essential administrative supervision and guidance, and the idea of having uniform trade relations with the outside world. Refraining from having scattered relations is one of the principles of the foreign trade reform.

Use New Technology and New Management Methods To Produce Exports

During her inspection tour, Chen Muhua frequently talked about how to improve the quality of China's exported goods. She said that China's commodity exports develop rather quickly but not in the desired direction. The main reason is not insufficient funds or low productivity but that we have not been producing what is needed on the international market nor the required

standards for exports. Our goods are still uncompetitive on the international market. In the future we must work on this and determine to use new technology and management methods to produce exports. At present, there are three things that we can stress: 1. Beginning with the management of raw materials, we must have high standards and put strict demands on every production link. [For example,] if we want to have more famous brands of Zhejiang silk, we must commence from the selection of silkworm breeding stock, and endeavor to do our utmost to adopt advanced techniques and equipment for silk reeling, weaving, printing and dyeing. 2. As soon as possible, we must solve some crucial questions that affect the reputations of export commodities. China's exported canned goods and food products are tops in taste and quality, but people often worry that they are unsanitary. Certain traditional food products, such as Peking duck and Jinhua ham in particular, occasionally fail health inspections. We must "tackle key problems" and employ some sterilization and bacteria-killing methods suited to China's traditional production techniques and that do not affect the taste or identity of the products. 3. We must study some advanced production and management techniques, lower production costs, and strive to produce and export more goods.

When Chen Muhua was in her hometown of Qingtian County, Lishui Prefecture, and heard comrades say that there are many mountains and rocks in the area but few resources, she pointed out that the mountains are resources too. Are not the 200,000 to 300,000 mu of hillsides good resources for developing animal husbandry? There is a large demand for lamb and beef on the international market right now, so why don't we raise more of these meats? Of course, we must use new techniques to develop animal husbandry. Using the old ones will not work. In some developed countries grasslands are opened specifically to breed sheep and cattle. The grass which grows in these areas is highly nutritious. The animals are kept on the land by barbed wire and are not allowed to walk too much. In this way the animals put on flesh especially fast. Mastering such animal-raising techniques is an economic result.

Foreign Trade Units Must Learn How To Work According to Economic Laws

One day Chen Muhua went to observe the Shaoxing Winery. During the discussions, a factory director pointed out that they were planning to increase exports since Shaoxing wine is now quite well-received on the international market. After asking for quantity and price particulars, Chen said that this is a problem worth studying. Many comrades currently pay a lot of attention to export volume but lack market analyses. Shaoxing wine is a unique and famous special product. The export volume of it should be restricted. To preserve its status as a wine that is rare and sells well in short supply, we must not surge ahead. Only rare goods are treasured! If we redouble exports, prices will fall. Customers generally "do not buy cheap goods" so once we cut prices customers will look down upon the wine and its reputation will suffer. Therefore, we must endeavor to protect our monopolized goods. We must study market psychology and find the best combination of export volume and selling price while firmly upholding quality and

studying the market. The best price, reputation and economic results can be achieved only after determining how much to export each year. Market mechanisms and the law of value should determine this.

A principle Chen Muhua frequently repeated during her inspection tour was "We must find ways to multiply our export commodity value." She asked foreign trade enterprises to serve producers by providing commodity and technical news on the basis of market analyses and economic laws. She said that China currently exports many raw materials but prices are low. Foreign traders must provide information and tell producers how to turn primary goods into finished products. Only then will the price of exports rise. Regarding sheepskin for example, we should not only sell slab skins but should tan them into furs and then clothing for export. Or, looking at silk, we must strive to export less raw and semifinished silk and to export more printed and dyed silk and silk clothing.

As soon as she stepped ashore from visiting China's largest fish farm, Zhoushan, Chen Muhua chaired a discussion regarding the problem of direct exports of fresh frozen fish from the sea. Zhoushan's Maritime Fishery Industry Co No 2 often wanted to export fresh fish directly by sea but never did so for various reasons. In the meeting Chen Muhua said that fresh fish exports by sea are a good thing and should be promoted as soon as possible. At present, the selling price of fresh frozen fish on the international market is much higher than for frozen fish. After our fishing boats catch fish, they used to transport it directly for export but now they have to return first to shore for freezing. Going back and forth like this wastes a lot of fuel, and freezing, storage, and transportation fees. Is this not clearly in violation of economic laws? Zhoushan's Maritime Industry Co No 2 imported its boats. They have freezing equipment on board; they have the means to save money and time and to have good economic results by selling the fish to Japan via direct sea exports. We have no reason to dissuade them from doing so. In the future such things should only be facilitated and not inhibited by foreign trade units and the related administrative departments. Then we really will have a revolution!

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FOREIGN TRADE AND INVESTMENT

STATE COUNCIL ENCOURAGES DIRECT TEXTILE EXPORTS

OW061630 Beijing XINHUA in English 1556 GMT 6 Apr 85

[Text] Beijing, April 6 (XINHUA)--Textile enterprises in China's 14 coastal cities and five major interior cities have been encouraged by the state council to engage in the export trade, according to the textile ministry.

The state council decision, taken earlier this year, is aimed at improving the country's textile export trade which used to be solely handled by state export corporations, with industrial enterprises having no say, officials explained.

So far, an integrated textile complex embracing 43 textile mills in Shanghai has been exporting directly since February 28, 1985. The setting up of five other such complexes has been approved by the Ministry of Foreign Economic Relations and Trade; they are in Tianjin, Dalian, Guangzhou, Fuzhou and Ningbo.

In addition, individual textile mills and textile industry corporations in the 19 cities may also apply to handle exports independently or in collaboration with state import and export corporations.

The Nantong Textile Industry Corporation has set up a joint enterprise with the Jiangsu branch of the China National Textiles Import and Export Corporation to deal in textile exports. Four other factories--the Beijing Cashmere Sweater Factory, the Hunan Ramie Corporation, the Shijiazhuang No 1 Dyeing and Printing Mill and the Zhejiang Gunny Sack Factory--have been approved to do export business, according to the ministry.

Factories in other cities would be given permission to export direct after experience was accumulated, a textile ministry official said.

China's first integrated textile complex that combines trade with production is the Qingdao Associated Textiles Corporation. Set up in April 1982 as a merger of eight existing textile mills, the joint enterprise has been expanded to include 30 factories. By entering directly into negotiations and trade with foreign businesses, the enterprise managers have become better aware of the international market and can switch their production lines to meet changes in overseas demand, the officials added.

30 April 1985

FOREIGN TRADE AND INVESTMENT

PRC PAPER ON NEED TO PROMOTE EXPORTS TO PAY FOR IMPORTS

HK090529 Beijing CHINA DAILY in English 9 Apr 85 p 2

[Text] China's ability to import the equipment and technology it needs for modernization depends on the foreign currency the country earns through exports.

According to the newspaper ECONOMIC DAILY, Chinese leaders are firmly committed to expanding exports this year, relegating domestic markets to second place in the national priority. Expanding exports, however, depends upon gearing production to the international market. The central government is urging departments and local authorities to give production of export commodities priority in allocation of electricity, raw materials and transport. Imported equipment and technology should be directed to industries producing export goods, according to the paper.

According to the Ministry of Textiles, a concerted effort is underway to increase one of China's major export commodities. The textile industry in 14 coastal cities and five major interior cities has been prodded by the State Council to concentrate more on export trade. The State Council decision, announced earlier this year, is aimed at improving the country's textile export trade now that it has been freed from monopoly control by State export corporations.

The new autonomy has spawned a network of textile cooperatives, joining mills together for common export efficiency. One such cooperative, formed in February, links 43 mills in Shanghai. Similar networks will soon be formed in Tianjin, Dalian, Guangzhou, Fuzhou and Ningbo. In addition, individual mills have been given permission to handle their own export trade. By entering directly into negotiations and trade with foreign businesses, mill managers have become more sensitized to international markets and can switch their production lines to meet changes in overseas demand, textile ministry officials said. Industry is only one factor in the export equation. China is also seeking to expand the export sector of agriculture.

ECONOMIC DAILY says that farm produce export centres should be given better quality seed, fertilizer and low-toxic pesticides as an impetus to developing export-oriented food processing industries. Growth of industrial and agricultural production at home and economic recovery in the West create favourable conditions for expanding exports. But a shortage of investment money and increases in the price of raw materials hinder progress, the newspaper says.

FOREIGN TRADE AND INVESTMENT

PRACTICES OF WEST GERMAN MANAGING CHINESE FACTORY

Guangzhou YANGCHENG WANBAO in Chinese 25 Jan 85 p 2

[Article: "Why Can't a Chinese Plant Manager Do What a Foreign Manager Can? Wuhan Diesel Engine Works Invites FRG Specialist Gerich To Be Plant Manager; Plant Shows Improvement in One Month, Mayor Writers of Support and Newspaper Discussions"]

[Text] The mayor of Wuhan, Wu Guanzheng [0702 1351 2973], wrote an article in the 6 January edition of the CHANGJIANG RIBAO [CHANG JIANG DAILY] praising Werner Gerich, the first foreign plant manager invited to his post by a Chinese enterprise. He proposed having a discussion in the paper as to why a Chinese plant manager cannot do what a foreign one can. It is reported that there are 10 plant managers in Wuhan studying under Gerich.

Gerich is an engine manufacturing and core engine technology specialist from the FRG. In September of last year he was invited to be a technical advisor at the Wuhan Diesel Engine Works. After 1 month of systematic investigations, he wrote an advisory opinion several tens of thousand characters long that contained more than 100 proposals. On 1 November he was offered the job of plant manager.

Upon arrival at his new post, Gerich asked several score plant workers, "How many spare parts do you make here for your style 195 diesel engine?" This "exam" stupified many, who only looked at each other in speechless despair. Gerich provided the correct number in the next breath. The workers were astounded and gasped in admiration.

One day, Gerich came down to the workshop to look around. He "uncovered" master parts that were imprecisely machined, had bump marks, or rust spots. He took them out one by one and put them on "public display" in the office. Using blueprints and measurements, he said to the workers: I don't know whether you have any thoughts about the several hundred thousand yuan that the plant wastes each year on these?

Shortly thereafter, Gerich discovered that several vat water-tank fasteners on the assembly line were substandard. He ordered an immediate work stoppage and an investigation of 250 units. Gerich ordered that all the units

be redone. Several days later he signed an order dismissing from their jobs the chief engineers and quality control department heads who were responsible for the quality mishap. Once Gerich's "broad ax" fell, the whole plant was shocked. No one has since dared be lax on questions of quality control.

Gerich is now 65 years old but his spirit is still strong. He gets up at 5:30 every morning and enters the plant before 7:00. One day the elevator broke down in the hotel where he lives so he arrived 20 minutes late for work. He asked the gatekeeper to take note of his tardiness, saying in a serious tone, "I am not an exception either!" On several occasions Gerich has stood at the plant entrance to observe how workers come to and leave work. He discovered that on the average, 70 minutes per day are lost by each worker because of late arrivals or turning off the machinery too early. He made a calculation in front of the workers: 600,000 man-hours are lost every year. He said in a harsh tone, "In the future we will not tolerate giving wages to those who do not work!" He made a rule that starting work at 7:00 means starting the machinery at 7:00 on the dot and not just entering the plant gates at that time. An 8-hour workday system means 8 hours of work, not dawdling. One day Gerich was passing an office when he suddenly heard a burst of laughter from inside. He opened the door and said in a strict tone of voice and blunt manner, "What are you doing? No chatter is permitted while on the job!"

Gerich spends most of his day in the workshop observing each link in the production process with the meticulous vision that is peculiar to technical experts. While inspecting diesel engine test runs one day, Gerich discovered that too much oil was being used. That was a "chronic ailment" that had been previously worked on at length but with little success. Gerich carefully analyzed various data and "prescribed an appropriate remedy." In the end the "chronic ailment" was cured and the diesel oil consumption rate was cut in half.

Gerich has only been plant manager for 1 month but the ratio of diesel engines that are up to par on the first full test run has increased from 80 to 96 percent. Output value and profits have more than tripled compared with the same period last year.

Gerich's 3-month contract as plant manager will soon expire. A poll recently taken in the plant found that 95 percent of the workers endorse Gerich's continued tenure as plant manager. Gerich has indicated that he is willing to extend his contract 1 year.

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CSO: 4006/391

FOREIGN TRADE AND INVESTMENT

FOREIGN TRADE ACHIEVEMENTS IN ELECTRONICS INDUSTRY

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 12, 27 Dec 84 pp 54-56

[Article by Huang Zhaoming [7806 0340 6900], general manager of the Chinese Electronics Technology Import and Export Company: "Industrial Cooperation Regarding the Electronics Industry Makes a Promising Step"

[Text] In the past few years, our company has cooperated with provincial and municipal departments in charge of the electronics industry and subordinate factories to carry out processing and assembly for exports, compensation trade, cooperative production and joint ventures, and has achieved definite results. The objects of this cooperation have increased from Hong Kong, Macao and Japan to the United States and some areas of West Europe. The contents of cooperation have gradually changed from components to complete machinery, from hardware to software and from processing imported materials for exports to assembling some domestic components for exports. The trade style has become more and more flexible and the contents more and more extensive. We have established an international reputation and made many international friends in the same field. Through industrial cooperation, we have imported some key equipment and technology and gained some experience in scientific management. In cooperation, we have also gained economic interests which we are entitled to. While expounding China's foreign economic policies, Premier Zhao Ziyang said: "Our economic and technological exchanges with foreign countries have made new progress . . . Joint ventures, compensation trade, processing of imported materials, and imports of advanced technology and key equipment are more down-to-earth than before and have made outstanding improvement." These remarks gave full affirmation and encouragement to the industrial cooperation carried out by China in the past 2 to 3 years.

General situation, methods and tentative ideas on using foreign capital to carry out flexible trade:

I. The General Situation of Industrial Cooperation in the Past Few Years

According to incomplete statistics compiled by the provinces and municipalities of Beijing, Shanghai, Tianjin, Guangzhou and Jiangsu, the past few years units under the department of the electronics industry have signed over 500 contracts with 210 foreign businessmen for joint ventures, compensation

trade and processing imported materials. The contracts include such items as television sets, radios, air conditioners, electronic watches, calculators, telephone sets, electronic game sets, various instruments and meters, electronic components and computer software development. Foreign businessmen have provided over 1,000 sets (pieces) of equipment and nearly 100 production lines.

Guangdong Province alone has signed 281 contracts. Foreign businessmen have provided 19 radio and radio-recorder production lines, 3 television production lines, 7 electronic wristwatch production lines and 28 component production lines.

In addition to processing imported materials and compensation trade, we have also made definite progress in absorbing capital from foreign countries and the Hong Kong and Macao area and establishing joint ventures using Chinese and foreign investment.

Over 10 joint ventures have already been approved throughout China, including:

The Chinese Computer World Service Company in Beijing; the Guangming Overseas Chinese Electronics Industry Co, Ltd in Shenzhen, Guangdong; the TTK Household Electrical Appliances Co, Ltd in Huizhou, Guangdong; the Xuanda Co, Ltd in Guangzhou, Guangdong; the Foshan Electronics Co, Ltd in Foshan, Guangdong; and the Fujian Hitachi Television Co, Ltd, the Huafa Electronics Co, Ltd, the Huamao Packaging Enterprise Co, Ltd and the Huamei Electroplating Technology Co in Fuzhou.

At the Chinese investment promotion conference in June 1982, the electronics industry took part in talks on 18 items and signed documents with foreign businessmen on 9 items to state their intention to engage in joint ventures, laying a foundation for further cooperation in the future.

II. Several Methods

In industrial, technological and investment cooperation with foreign countries, we have adopted the following methods:

1. Combine technology transfer with the industrial readjustment and technological transformation of enterprises in industrial cooperation.

The focal point of industrial and technological cooperation is to import, in light of the technological transformation of old enterprises, advanced foreign technology and equipment to accelerate the technological progress of enterprises.

The Beijing No 3 Radio Plant cooperated with the Murata Factory in Japan and imported in the form of compensation trade a ceramic component capacitor assembly line. With production equipment at international levels of the late 1970's, this plant has increased production efficiency and learned the scientific methods of overall production, technology and quality control. In the meantime, the Japanese have also benefitted from products sold to them

With foreign exchange earned by processing imported materials, the Dongfeng Television Plant in Beijing has imported over 300 sets (pieces) of 35 different kinds of advanced instrument and equipment and changed a domestic 9-inch television production line into a 12-inch black-and-white television production line. The annual production capacity of this line is 180,000 sets, and the quality of its products is comparable to that of Japanese television sets.

As another example, after the Shanghai Light Bulb Plant imported from Japan a production line that can produce 1.6 million black-and-white kinescopes a year, it began to tap the potential of its old enterprise, readjusted and transformed its old factories and workshops and relied on its own technical forces to change its production procedures in light of reality. As a result, it took this plant only 10 months to put the line into production, 6 months to repay all loans and 18 months to recover all investment. We welcome this kind of method that is linked to the technological transformation of old plants and results in fast recovery of investment.

2. Use industrial cooperation to accelerate enterprise consolidation, improve enterprise management and thereby speed up industrial production.

By importing a Chinese assembly line, the Huaian County Radio Component Plant in Jiangsu Province stirred up an overall reform of enterprise management and increased its product variety from one with a dozen models to two with over 50 models.

In light of characteristics of the assembly line operation of its imported production line, this plant changed the original formation of its production labor and strengthened production specialization, greatly reducing the time of Chinese technological process and increasing the utilization rate of equipment and production efficiency.

3. Industrial Cooperation Expects "Flexibility"

Combining industry with trade itself has given us greater flexibility in carrying out industrial cooperation. Processing imported materials, producing goods based on the designs and blueprints provided by foreign investors, compensation trade, cooperative production and joint ventures all can be carried out flexibly under the guidance of the principles specified in China's relevant policies and principles. One can start with processing imported materials and then transfer to joint investment. One can also carry out cooperation in the form of compensation or establish repair centers to engage in the import business. The content and form of cooperation may vary and should not stick to one pattern. An enterprise may carry out different forms of cooperation with different foreign businessmen or cooperate with the same businessmen in different ways during different periods. It can also unite with several other enterprises to cooperate with one foreign businessman.

For instance, the Huaqiang Electronics Industry Co. in Shenzhen is one of the three plants in Guangdong Province which have cooperated with the Sanyo Electrical Machinery Co., Ltd of Japan. Because both sides wanted to turn out products as soon as possible, they first adopted the method of processing imported materials. Through further understanding, both sides gained

confidence in strengthening cooperation. Therefore, they gradually transferred to joint investment and management.

The Beijing Broadcasting Equipment Plant cooperated with Japan's Sony Corp in producing color television. Proceeding from reality of both sides, Sony suggested that joint management be carried out in three steps. The first step is a period for the plant to accumulate foreign exchange by first processing imported materials for stereo radio-recorders, creating conditions for the next step in joint management.

The information department of our company signed an agreement in September 1980 with CW Company of the United States on joint investment to establish the "Chinese Computer World Publication Service Co." The agreement stipulates that Chinese investment should account for 51 percent and U.S. investment should account for 49 percent. Since the company's establishment on 8 June 1984, 86 issues of JISUANJI SHIJIIE (COMPUTER WORLD) have been published. Their principle used in managing the magazine is to "put equal emphasis on domestic and foreign information, give equal consideration to popularization and improvement and gear to production enterprises, scientific research units, management departments and computer users." Their magazine has excellent pictures and articles, a lively writing style and timely and accurate information. It is very popular among readers. Last year at its founding ceremony, many Chinese and foreign friends unanimously praised JISUANJI SHIJIIE as a magazine helpful to people in computer and electronics fields. In addition to joint investment for such "software," establishing service centers and repair stations also is a fairly good form of cooperation. We should also actively respond to it.

III. Tentative Ideas On Using Foreign Capital

1. Radar, communications and navigation

We should concentrate on developing miniature civilian broadcasting stations, all electronic telephone switchboards, teletypewriters, English typewriters, modern telephones and radar communications and navigation devices for use by civilian airplanes and vessels.

2. Computers and computer hardware

We should concentrate on developing computers, microprocessors and their application to industrial control systems and office, educational, household and commercial appliances. We should emphasize software development and the kind of hardware which is not available in China.

3. Components, instruments and special equipment

We should mainly develop mass-produced key components which are used to complete main machines such as small motor magnetic heads, potentiometers, loudspeakers, connectors and sound surface wave filters.

As for instruments and special equipment, we should concentrate on developing

those products which are not available or in short supply in China. At the same time, we should also develop electronic vacuum devices and anode and semiconductor materials.

4. Consumer-oriented electronic products

We should mainly develop broadcasting and television products, such as newstyle television sets and radio-recorders, electronic toys and microwave ovens.

5. Contracts for the design, survey and installation of electronic engineering projects and the repair, consulting and service work of electronic products.

6. Labor exports

We should send technicians abroad to participate in designing and technical workers abroad to participate in building construction.

China is a Third World country. Compared to technologically advanced countries, its economy and technology are still fairly backward. Revitalizing China and developing the economy is one of our basic national policies. Premier Zhao Ziyang said at the Second Session of the Sixth NPC: "... We should vigorously develop foreign economic relations and trade. Especially in utilizing foreign capital and importing advanced technology, we should be more open and our strides should be even bigger." The policy of further opening to the outside world has created good conditions for carrying out industrial cooperation. We have extensive cooperation projects. We hope that foreign entrepreneurs and industrialists and men with breadth of vision in financial circles will come to China to engage in cooperation.

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CSO: 4006/427

FOREIGN TRADE AND INVESTMENT

VICE MINISTER ON FOREIGN CAPITAL, ECONOMIC COOPERATION

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 1, 27 Jan 85 pp 6-9

[Interview with Vice Minister Wei Yuming by special staff correspondent Luosu Sibao [5012 4790 2448 2672]: "Absorb Foreign Capital and Import Advanced Technology To Develop Foreign Economic Cooperation Relations"]

[Text] Question 1: Why was Hong Kong chosen as the place to hold the open city investment conference?

Answer: The "Chinese Open City Investment Conference" was sponsored by Zhongyin and Huarun corporations, Zhaoshangju and Guangda companies and JINGJI DAOBAO [ECONOMIC REPORTER] of Hong Kong. We are very glad that we have been invited to attend. Since China implemented the policy of opening to the outside world, it has absorbed a large proportion of direct foreign investment from the Hong Kong and Macao area and established a fairly good foundation for economic and technological cooperation. Now that China has further opened up a number of coastal port cities and quickened its tempo in foreign economic and technological cooperation, Hong Kong has the conditions to play a more active role. Strengthening economic and technological cooperation between Hong Kong and inland China not only can help speed up construction of the motherland but also help Hong Kong maintain prosperity and stability. Therefore, convening the investment conference in Hong Kong is a positive and farsighted action which has won favorable comments from Hong Kong and Macao and foreign economic and industrial communities.

Question 2: Some foreign businessmen who are interested in investing in China want to know whether the Chinese government has an economic tactic for the overall coordination of 19 open cities and special economic zones. Would Your Excellency please specifically explain the relationship between different cities and their position in the state plan?

Answer: The 14 coastal port cities which have been further opened up, four special economic zones and Hainan Island have different advantages in the fields of economics, technology, communications and personnel. But generally speaking they have better conditions than inland China in developing foreign economic and technological cooperation. Therefore, considering them as the forward position, we hope that they can vigorously absorb foreign capital, import advanced technology and, on the basis of their own development, help

develop inland China. They use their own advantages to develop their foreign economic relations. They also cooperate with each other. They all develop under the guidance of the state plan to ensure the coordinated development of coastal areas and the whole nation.

Question 3: Some of the 19 open cities and special economic zones were permitted later by the state to be open. Could this cause investors to focus their interest excessively on those cities opened earlier?

Answer: Because these cities have different conditions, their development cannot be synchronized in the future. Some will develop faster; some will absorb more foreign capital than others, depending on how well they do their work. We particularly emphasize the need for all localities to give full scope to their strong points and advantages. As long as they correctly implement the policy of opening to the outside world, they all have the conditions to achieve faster development. Of course, their foundations are different; we should not demand uniformity. We should allow existence of imbalance while encouraging them to compete with each other. In my opinion, as long as they do a good job, those cities which were opened up later could surpass and develop faster than those which were opened up earlier.

Question 4: Do you think the responsible persons at the developmental departments of the 19 cities and special economic zones have adequate professional skills to fulfill the ambitious plan of opening up to the outside world for every city?

Answer: Since last year, leading bodies of all localities have been readjusted according to the demand of the central government and many outstanding cadres who are in the prime of life and well educated with professional skills have been elected and promoted to leading bodies. This year, after the announcement that 14 coastal cities will be further opened up, some cities conducted another shakeup of their leading bodies to suit the need of opening to the outside world. Therefore, the leading bodies of these cities have improved substantially and are competent at work. Of course, there is still much to be desired and incumbent leading personnel should also continue to study and improve so as to suit the need of economic development.

Question 5: Does every city have a technically competent labor contingent? Are the quantity and quality of such a contingent guaranteed?

Answer: China has ample labor forces. The educational and technical level of employed people have improved substantially. The quality of staff members and workers in coastal open cities is even better. After some professional training, they can all suit the need of new economic development. We should consider this an extremely favorable factor for developing China's economy.

Question 6: Some foreign businessmen who have established plants in China complained they had to arrange additional training for Chinese staff members and workers, increasing their burden. The question is: How much freedom do foreign businessmen really have in selecting employees when they run enterprises in China?

Answer: When foreign businessmen come to China to establish plants or invest in joint ventures, conducting necessary training of staff members and workers according to their needs is an important condition for making a success of their enterprises. It is not an added burden. It is a necessary intellectual investment. As for the management of joint venture staff members and workers by foreign businessmen, there are already clear stipulations in China's "Law on Joint Ventures Using Chinese and Foreign Investment." Along with the reform of China's economic management system, the labor and personnel system will become more flexible and better suited to the situation of enterprises using foreign investment.

Question 7: Has China ever considered that if some imperfect situations in these cities, such as insufficient power supply and backward highway, transportation and communications facilities, fail to improve quickly, they would seriously affect the speed of foreign investment?

Answer: This issue has already attracted the attention of departments concerned. When we further opened up the 14 coastal cities, we particularly emphasized that these cities should first do a good job in constructing infrastructure facilities. The state and open cities have adopted a series of measures to speed construction and vigorously improve energy, communications and transportation situations so as to create a better investment environment for foreign investors. In addition, not long ago, the State Council decided that if foreign investors invest in such projects as energy (not including oil), communications and port construction in cities which were further opened up, their enterprise income taxes may be reduced 15 percent with the approval of the Ministry of Finance. We believe this unsuitable situation will be reversed in the near future.

Question 8: I understand that the power of each city to examine and approve projects is somewhat different. Does the figure which Your Excellency mentioned in your speech at the opening ceremony of the conference refer to the total investment of a project or just the ceiling of foreign investment? How do you apply preferential treatment for foreign businessmen? Do foreign businessmen get such treatment automatically? Or do they have to be qualified for some additional conditions? Who makes such a judgment?

Answer: The amount of investment stipulated in regard to the power of examination and approval refers to the total investment of a project. The power to examine and approve projects using foreign investment concerns China's internal work procedure and has nothing to do with the right and interests of foreign businessmen. We have expanded the power of those cities, which have been further opened up, to examine and approve projects in order to simplify procedures and give them more flexibility. We have also laid out preconditions for granting preferential treatment to foreign investors. Those who have such preconditions may enjoy preferential treatment. Of course, whether they are qualified for such preferential treatment needs to be examined and decided by the departments concerned.

Question 9: Many foreigners feel that trade talks often progress very slowly in China and it takes very long to reach the policy decision stage. What

measure does Your Excellency think can guarantee real simplification of examination and approval procedures in these coastal cities?

Answer: We have expounded on the meaning of further opening up these coastal cities; that is, to expand the decision-making power of these cities and give preferential treatment to foreign businessmen who come to invest in these cities. Expanding their decision-making power is to expand mainly their power to examine and approve projects using foreign investment and to import technology. The purpose is to simplify procedures and speed up the progress of foreign economic and technological cooperation. Now these cities not only have the right to examine and approve projects within specified limits but also to examine and approve relevant equipment imports and foreign investigation tours. This is a substantial improvement over the past.

Question 10: Your Excellency mentioned in your opening speech at the conference that foreign investors will be allowed to sell their products in "certain domestic markets." Is there a highest or lowest limit on the ratio in this regard? Or is it to be discussed specifically according to the contract?

Answer: Based on the technology and products provided by foreign businessmen, we will draw up a clear limit for the ratio of products of joint ventures using Chinese and foreign investment to be sold on domestic markets. Under general circumstances, we demand that joint ventures achieve a balance in foreign exchange while encouraging them to export their products. If foreign businessmen provide advanced technology and products which China needs to import, we will give them some domestic markets. As for the exceptionally advanced technology which plays an important role in promoting domestic production and products whose functions and prices are competitive on the international market which China needs to import in large quantity, we will increase their ratio of domestic sales. Or we may allow most or all of them to be sold on the domestic market. This need to be defined in individual contracts.

Question 11: Some foreign businessmen complained that they pay international levels of wages, but often cannot receive the same level of service and technology. What measure do you think can eliminate such difference?

Answer: At present, the wage level of Chinese staff members and workers employed by wholly-owned foreign enterprises or joint ventures using Chinese and foreign investment is not high. Compared to other countries and areas, it is still in the average to low range. The service and technical level may be unsuitable in some respects, but if Chinese and foreign investors join efforts to strengthen management and training, it is not difficult to find a solution.

Question 12: What kind of impact will the economic reform recently carried out by China produce on existing and future Chinese enterprises, especially regarding wage and price structures?

Answer: This question has been clearly expounded on in the "Decision of the CPC Central Committee on the Reform of the Economic System."

Question 13: Your Excellency mentioned in his speech that the reform of China's economic system will involve "combining industry with trade and technology with trade." What does it specifically mean, and what kind of changes does it imply?

Answer: Combining industry with trade and technology with trade is a method widely used in today's international trade. It can be applied in a variety of forms. Its purpose is to establish a closer link between trade and production and technological progress, enable them to promote each other and develop together. One of the weaknesses in China's past foreign trade system was separation of trade from industry and failure to combine technology with trade. Due to barriers between different departments and between production and sales units, sales departments lacked an understanding of market needs and production technology was often ignored in commodity imports. Since the reform of the foreign trade system, government functions and enterprise responsibility have been separated and the business decision-making power of foreign trade enterprises has been expanded, creating conditions for conducting various forms of cooperation with production enterprises. Some production enterprises which have conditions can also directly trade with foreign countries, closely combining trade with production and technology transfer.

Question 14: Similarly, Your Excellency mentioned that after the economic reform, China's foreign trade enterprises will no longer be subordinate to their administrative departments, but will assume sole responsibility for profits and losses and at the same time develop in the direction of "specialization and socialization." What does "specialization and socialization" really mean?

Answer: Specialization means that every enterprise has its special business scope. Socialization means that instead of serving a certain organ, enterprises are oriented toward society.

Question 15: In your speech, Your Excellency clearly stated that "China will accept more direct foreign investments" and, in the meantime, the "previous potential Chinese market will soon become a real market as far as foreign businessmen are concerned." Could you please explain in detail China's future plan and the flexibility of its policies?

Answer: China will become more open in the future, and its policies will also be in line with this.

Question 16: Although Chinese leaders have continued to make public guarantees, many investors still worry that current economic policies will be changed in the future. I feel that it is a historical fact that Chinese economic policies have experienced many drastic changes since liberation and all their causes have been political changes. Can Your Excellency say that future political changes will not again affect Chinese economic realities?

Answer: If you study China's political and economic situation since 1979, you will understand that our whole nation is striving to build a modernized country, that our political situation is stable and that our policies are firm and unshakable. If there is to be any change in China's future political and economic situation, it can only be an earlier realization of current socialist modernization. It cannot be anything else, much less retrogression.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

1984 GRAIN, COTTON EXPORTS REGISTER INCREASE--Beijing, April 5 (XINHUA)--China exported 3.44 million tons of grain in 1984, twice as much as in 1982, according to the statistics released by the Ministry of Foreign Economic Relations and Trade. The country also exported 200,000 tons of cotton in 1984. If deducting the volume imported, its net export volume was 170,000 tons. This put an end to China's net importation of cotton for long. [sentence as received] China had good grain and cotton yields in 1984. Their output was more than 407 million tons and over 6.07 million tons respectively, a 5.1 percent increase and a 31.1 percent increase over the figure for 1983. [Text] [OW051124 Beijing XINHUA in English 0852 GMT 5 Apr 85]

1984 FOREIGN INVESTMENT STATISTICS RELEASED--Beijing, April 6 (XINHUA)--Joint projects rose 50 percent in 1984, coming to 2.874 billion U.S. dollars, a spokesman for the Ministry of Foreign Economic Relations and Trade told XINHUA today. Almost half the amount was invested during the year. Agreements for 1.916 billion U.S. dollars of loans were signed by China with foreign governments and banks in 1984, and most of it was used last year. Joint ventures approved to start last year came to 741, involving foreign investment of 1.067 billion U.S. dollars, a 466 percent increase over 1983. Other co-operative business arrangements involved 1.484 billion U.S. dollars, 195 percent higher than 1983. China has started more than 930 joint ventures since July 1979, when the standing committee of the National People's Congress adopted the law on joint ventures. Initially started in special economic zones and coastal areas, such enterprises have spread to 27 provinces, autonomous regions and municipalities directly under the central government. [Text] [OW060734 Beijing XINHUA in English 0720 GMT 6 Apr 85]

SHANGHAI EXPORT QUADRUPLES IN 6 YEARS--Beijing, April 9 (XINHUA)--Exports from Shanghai's 10 suburban counties have quadrupled to 800 million yuan over the last six years, the newspaper, "WEN HUI BAO," reported Monday. Nanhui and Chongming Counties now each export more than 100 million yuan-worth of goods a year. Aided by the city's import-export corporations, over 600 export-oriented farms and processing factories have been set up, the paper said. The number of export commodities has grown to 400 from 130 six years ago. The farms breed such animals as goats, rabbits, mink, pigs, eels, goldfish, flowers and mushrooms, while the factories process popular farm products including dehydrated vegetables, canned asparagus and mushrooms, and traditional Chinese medicinal herbs. Over the past few years, foreign-trade companies have invested 20 million

yuan in joint export-oriented ventures, in cooperation with rural factories. They have supplied imported equipment, technology, product samples and business information. As a result, the ventures now manufacture 20 major types of goods including household appliances, tools, knitwear, gloves, woolen shirts, and headgear. A new screw factory set up in Nanhui County turns out 300 products with specifications meeting the requirements of the British, American and French systems. Its exports go to 70 countries and account for half of the total exported by Shanghai's factories in urban areas. [Text] [OW091156 Beijing XINHUA in English 1144 GMT 9 Apr 85]

SHANGHAI AWARDS CERTIFICATES--Shanghai, April 9 (XINHUA)--Certificates of honor were awarded by the Shanghai municipal government today to 257 locally-produced export goods. Among them is a type of patterned drawnwork, known as "shadow flowers," a best seller on the international market. Chinese leaders have recently repeated calls for greater efforts to boost exports. Of Shanghai's 8,000 state-owned enterprises, 3,000 are involved in the production of exports, including ships, electric motors, internal combustion engines, TV sets, radios and arts and handicrafts. [Text] [OW100103 Beijing XINHUA in English 1616 GMT 9 Apr 85]

NEW GUANGZHOU REGULATIONS FOR DEVELOPMENT ZONE--Guangzhou, April 9 (XINHUA)--New regulations on preferential treatment for overseas investors, enterprise registration, land management, taxation, and labor in the Guangzhou Economic and Technological Development Zone were published here today. Under them, foreign investors who provide advanced technologies this year and next will enjoy more preferential treatment, including the chance to market joint-venture products in other parts of China. The interim provisions of the development zone are designed to protect the legitimate interests of foreign investors. They state that imported technologies must be advanced, practical and profitable. They encourage the import of electronic technology for the information and domestic appliances industries, bio-engineering for the food and pharmaceutical industries, energy-saving technology and technologies for developing new types of machines. Overseas investors who provide urgently-needed technologies will be exempted from land tax, and new enterprises will be granted a reduction in land tax during their capital construction period. The foreign investor's share of profits resulting from technology imported to the development zone will not be subject to local income tax. The new regulations also provide for a reduction consolidated industrial and commercial tax in such cases. [Text] [OW100105 Beijing XINHUA in English 1627 GMT 9 Apr 85]

JIANGSU EXPORTS INCREASE--At present, Jiangsu Province maintains trade relations with more than 120 countries and regions in the world. Stable export channels have taken shape in our province's foreign trade. Compared with 1983, exports to the Soviet Union in 1984 rose by 60 percent; the United States, 17.7 percent; the EEC, 13.8 percent; and Japan, 11.7 percent. Exports to Hong Kong and Macao continued to grow steadily. The 1984 figure was 7.3 percent more than the previous year. Exports to Hong Kong and Macao still accounted for 28 percent of the total export volume of the province. [Text] [Nanjing XINHUA RIBAO in Chinese 29 Mar 85 p 1 OW]

JAPANESE DELEGATION IN SHANDONG--On the afternoon of 11 April, Liang Buting, governor of Shandong Province, received the economic delegation from Wakayama Prefecture, Japan. At the invitation of the province, the 19-member economic delegation arrived in Jinan city on 7 April. During their stay in the province, the delegation held talks with the provincial authorities on economic and technical exchanges and trade. It also made an observation tour at the Shengli oilfield in Qingdao city and of Jinan city. The delegation will leave Jinan city for Shanghai municipality on the afternoon of 12 April. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 11 Apr 85 SK]

SINGAPORE PLANS INCREASED EXPORTS TO CHINA--According to a Singapore press report, the Singapore Trade Development Bureau [STDB] will make China one of its overseas target markets to be actively developed from now on. This was revealed by Zhan Dasi [6124 6671 2448], chairman of the STDB, at a press conference on the 21st. He pointed out that during the fiscal year from 1 April 1985 to 31 March 1986, the STDB will continue to seek overseas markets and will provide extra services to exporters, helping them export goods and labor. He said that China is a potentially huge market. Singapore can give China engineering services, particularly offshore and deep-sea services, as well as plant installations and technological transformation services. Zhan said that Singapore is planning to hold 30 trade shows and send 4 trade and investment study groups abroad this year. Two of the groups will go to China. Singapore businessmen are also planning to attend the Asian Pacific Trade Show to be held from 15 to 30 November 1985 in Beijing. [Text] [Guangzhou YANGCHENG WANBAO in Chinese 24 Jan 85 p 4] 12615

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SPECIAL ECONOMIC ZONES

LIST OF TECHNOLOGIES, FOREIGN CAPITAL IMPORTED INTO SHENZHEN

Shenzhen SHENZHEN TEQU KEJI [SCIENCE AND TECHNOLOGY OF SHENZHEN SPECIAL ZONE]
in Chinese No 4, Oct-Dec 84 pp 46-47

[Article by Wen Chengen [3306 2110 1869] of Municipal Scientific and Technological Data Institute: "Today's Shenzhen Special Zone"]

[Text] G648 The first stage of construction of the new school campus of Shenzhen University was completed in August. The construction took 7 months, from the time the buildings were designed to the time they were handed over for occupancy after completion. The new school campus consists of more than 20 buildings including classrooms, an audio-visual education center, a factory for practical experiments and dormitories with a total floor space of 68,000 square meters. A total of 4,000 students can attend class at the same time. The teaching equipment is quite advanced, including a computer control center, a microcomputer room, facilities for broadcasting as well as audio and video recording, closed circuit television, a speech laboratory and so forth.

G89 Shenzhen's tourist trade has imported advanced foreign technical equipment and business management experiences, and is now developing rapidly. The Xiangmihu Holiday Inn and A.B.C. Kabushiki Kaisha of Japan, which jointly invested 120 million yuan in building China's Disneyland of one square kilometer, have gradually imported from Japan and Italy more than 60 gigantic amusement items of the most up-to-date and advanced models. This will become the largest amusement park in Southeast Asia.

R780.8 Shenzhen's dental center has recently imported a comprehensive dental treatment set. This is the most up-to-date product of the Li-tuo [phonetic] Company of the United States. The dental drills are fitted with light guides for illuminating the positions of teeth during dental surgery.

S482.3 The "Shenzhen Service Center of the China Pesticide Company" jointly operated by Shenzhen, Harbin and Hong Kong and opened in August, has imported from Australia a complete set of sanitary pesticidal equipment for exterminating termites, rats, roaches, mosquitoes and flies, and for fumigation and purification purposes. It will also establish a small pharmaceutical plant and act as sales agent for related products from the United States, West Germany, Holland and Japan.

S812.9 In early 1983, the animal husbandry department of Baoan County imported from Australia several varieties of fodders including three-blade grasses, broad-leave Dallis grass, pillar-flower grass [zhu hua cao 2691 5363 5430], large-wing beans [da yi dou 1129 5065 6258] and dog-tail grass [gouwei cao 3699 1442 5430] and has successfully transplanted them. These forage grasses are suitable for the soil of our municipality, can endure the cold winter and grow fairly well in spring and summer, with a per-mu output of 4,500-6,000 jin. The planting acreage was further expanded in May this year.

S917.12 The feed processing plant of Huabao Combined Herding-Industrial-Commercial Company has imported from the United States advanced feed processing machines to produce suitable fodder for South China areas and put them into operation in September. The fodder produced can help animals grow rapidly, reduce consumption and yield more meat.

S834.8 In 1979, Guanghua Overseas Farm imported from Australia ducklings of Digao [3695 7559] arid land. The ducklings have grown rapidly in the past several years. In 1983, 326,300 of them were supplied to the inland and 345,400 other were exported for their meat, leaving 100,000 in stock.

S966.1 The salt field experimental base of Nanhai Marine Products Institute has imported from abroad 30 pairs of striped prawns for artificial breeding and successfully produced more than 60,000 of them. Through artificial breeding too, this institute enabled the prawns with Bohai and Huanghai as their natural habitats to be propagated in the south.

T-1 A seminar on "Industrial Investment and Electronic Technology" jointly held by Shenzhen University and the Association of Modern Professionals of Hong Kong was held in Shenzhen in the middle of May. The meeting discussed the environments and basic amenities required for absorbing foreign funds, the factors to be considered by multinational companies in the transfer of technology and in personnel management and the development of human resources and computer science in the 1980's. The problems of design and manufacture of integrated circuits were also discussed.

TH-2 The Shenzhen Scientific Equipment Import and Export Service Company has established contacts with hundreds of trading companies and plants in more than 10 countries and regions, and offered services in the exchange of scientific instruments and equipment between China and other countries. This company mainly deals in computers, scientific instruments, machinery, electronic meters, medical appliances, movie and photographic equipment, optical equipment and printing machines. It also offers consultation service on technical data and organizes discussion groups on technical exchange.

TH714.57 The Tianshi Industrial Company Ltd of Zhonghanju Shenzhen Industry and Foreign Trade Center has imported from abroad an advanced supersonic wave automatic welding machine for electronic watches. Each machine can weld 500 electronic watches of fine quality in one work shift.

TG178 With samples imported from abroad, Shekou Zhongrui Chemical Industry Plant has cooperated with Beijing Chemical Industry Plant in the manufacture

of a new type of alkaline copper etching powder of good and reliable quality. It is now in mass production for exports to Hong Kong and other places.

TG3 In cooperation with Hong Kong merchants, the Shenzhen Harbor Construction Machinery Company has adopted advanced technology in producing large and fine-quality steel formworks (an advanced mechanized method used in the building industry). It has also imported a set of British equipment for producing a type of hot-spray zinc-steel windows which are wind-proof and not easy to rust.

TG333.21 The Shekou Huayi Aluminum Plant has imported from Japan an automatic production line of combined cutters for straightening, trimming and cutting aluminum coils into strips in a continuous process. The annual output of aluminum products is 1,200 tons.

TG375 The Xilin Industrial Corporation has remodeled an extrusion press imported from Hong Kong (by altering the mechanical furnace, adding a nitriding furnace, and improving the surface treatment techniques) and increased its productivity. The fine-quality aluminum products from this press had the highest rating among similar domestic products in the Guangzhou Trade Fair held this spring.

TN805 The Guangming Overseas Electronic Plant has imported from the United States an advanced automatic computer plug-in device of the 1980's. This device can accurately plug regular elements into the circuit board, and each device can perform the work of 60 persons and meet the demand of three complete production lines. This was the first device of its kind ever used in our country.

TN949.12 Huali Electronic Company, the first one in the municipality to form technical cooperation with Sony Company of Japan, has imported Sony's color TV production line together with the aging equipment and computerized testing instruments, all of the highest world standards, as well as the advanced automatic wave crest welder. Two months after the production line went into operation (August), each worker was able to produce three TV sets each day. This company has also imported eight sets of Nissan computer board testing and regulating instruments of high efficiency and used them to produce color TV sets of good quality.

TQ153 Meitu Technology Development Company of Shenzhen has successfully utilized the fruit of the latest scientific achievement of the China Academy of Sciences--the cold arc cathode tantalum tube--to popularize the new technique of ionic vacuum plating which can reduce the cost and improve the quality. It has also successfully applied the technology of pulse gold-plating which was scientifically confirmed only last year. The crystals in the plating are finer than those produced by the traditional techniques.

TQ320.42 The Shenzhen Plastic Materials Plant which began its operation in July this year has imported equipment from Japan, the United States and West Germany. Its entire production process is computer controlled and up to the advanced standards of the 1980's.

TQ320.6 The plastic model branch of Aiwa Electronic Company Ltd. has imported more than 10 sets of advanced equipment including plastic injectors, cutters, borers, external grinders and the related technologies separately from the United States, Japan, England and Poland. It is now able to produce plastic and cold-punched parts of 25-4,000 grams of various models as well as the clamping devices, and to fulfill the task assigned by the state of producing complete sets of plastic parts and metal components for the terminals of CRT computers (10,000 sets per month).

TQ63 Shenzhen Construction Paint Factory, in cooperation with Wuhan Building Materials Industry College, has successfully trial manufactured GR-71 paint for internal walls and GR-51 abrasion-resistant paint for floors.

TS205.9 After importing advanced technology and equipment including the instruments for chemical experiments, Huada Radiation Center, jointly run by Shenzhen and Hong Kong, is now able to use atomic energy for preserving freshness and for cultivation and disinfection.

TS6 Guangming Furniture Plant has imported from Japan a complete set of the most up-to-date equipment for plywood processing. With some spareparts imported from West Germany and Japan, it has produced elegant furniture out of Thailand teakwood. This year, it has also designed many sets of furniture which are well received in Hong Kong. The advanced equipment imported by this plant included hot presses, edge-sealing machines and multitier drills.

TS951.3 Shenzhen Industrial Development Service Company has imported special equipment for producing self-inking stamps of synthetic materials. No ink pad is required and the stamp can be used 15,000 times with clear impressions. Human images can also be included in the stamps as an effective precaution against forgery.

TU525 Chiwan Cement Products Plant which went into operation in the middle of June this year, has imported from the United States a complete set of brick-making equipment. The master machine and material feeding system are controlled by two computers and the automatic production process is up to the advanced standards of the 1980's.

TU6 No 2 Provincial Construction Company has used new techniques and popularized new technologies in the construction of Jingcheng Mansion. It has imported from Japan more than 10,000 portal frames and alloy lead frames with flat surfaces to replace scaffoldings of steel tubings, thus saving manpower and time in making formwork. By using steel-wood frames of the bench type for integral holsting, work efficiency can more than double.

TU67 The Shenzhen experiment station of China Construction Engineering College has successfully trial manufactured a new type of boring machine--the DZT large-diameter rock boring machine. In operation, the drill goes straight down to the ground and makes little noise. Its efficiency more than doubles the ordinary boring machines of the percussion type. This is a new product in our country.

TU831.4 Carrier (Hong Kong) Company Ltd. of the United States held in Shenzhen a "meeting for the exchange of advanced air-conditioning technology" with real objects on display. Lectures were also given on "traditional design of air-conditioning by forcing air through the system" and "computerized design of the air-conditioning system." Carrier Company was founded in 1915 by William Carrier, the earliest inventor of air-conditioning system.

TU985.14 The first stage of tree-planting in the park of Yinhu Tourist Center in Bijiashan, Shenzhen, has been completed. There are many varieties of trees and flowers in the park of a unique and novel design. This park has been nominated to enter this year's national park contest. The design of another park, the Donghu Guest-House Park, has also been evaluated by the Department of Urban and Rural Environment Protection as a first-class design.

U46-28 In the first 10 days of August, a "Nissan Motor Car Exhibition" was held in Shenzhen where more than 10 types of Nissan cars, all attractive in appearance and good in performance, and their spareparts were on display. A documentary film showing the advanced production technology in the Nissan plant and a cross-country race were also shown. In the middle of September, an exhibition of the famous French motorcar "Peugeot" was held in Shenzhen. This car has won awards in several international contests.

U463.431.7 Guangming Overseas Motor Vehicle Repair Factory in Shahe, Shenzhen has imported a complete American-made automatic device for installing, removing and inflating tires. The whole process of removing, installing and inflating a tire takes only 10 minutes, 20 times faster than in manual operation.

U464 Shenzhen Mechanical and Electrical Equipment Installation Company has imported a Japanese high-molecule electronic gas-saving device. An advanced new product, it is compact and sturdy and can reduce gas consumption by 20-35 percent besides reducing environmental pollution and increasing the engine's horsepower.

Z52 The first authoritative almanac of registrations in the special zone, entitled "Almanac of Chinese Enterprise Registrations--A Special Publication of Shenzhen Special Economic Zone"--was issued in September. In the form of a chronicle, this publication contains detailed accounts of the achievements of the special zone in its vigorous industrial and commercial development, together with relevant data on 3,000 Chinese and foreign enterprises.

9411

CSO: 4006/359

SPECIAL ECONOMIC ZONES

FOREIGN CURRENCY PROFITEERS ARRESTED IN SHENZHEN

HK090506 Beijing ZHONGGUO XINWEN SHE in Chinese 1422 GMT 8 Apr 85

[Report: "Twenty-One Foreign Currency Profiteers Arrested in Shenzhen"]

[Text] Shenzhen, 8 Apr (ZHONGGUO XINWEN SHE)--On 2 April, when 21 foreign currency profiteers were engaged in their illegal transactions, they were arrested by cadres and policemen of the Luohu Branch of the Public Security Bureau of Shenzhen city.

Profiteers Ye Hui, Zheng Zhangbing and Chen Jinduan were arrested by the People's Procuratorate of Luohu District according to law. Zheng Zhangbing, who came from Haifeng County, rented a house in Xinwei near the Shenzhen reservoir on the pretext of working as a carpenter. He collaborated with a number of profiteers to engage in illegal foreign currency transactions to seek profits.

His house was a den for these illegal activities. Since the Spring Festival this year he colluded with profiteers Ye Hui and others, who came from Linshang farm in Kwun Tung of Sheung Shui in Hong Kong's New Territories to carry out several illegal transactions in Hong Kong dollars.

At about 1300 on 2 April when a group of profiteers were entering Zheng Zhangbing's house in Xinwei near the Shenzhen reservoir, they were caught in a dragnet by the cadres and policemen of the Public Security Bureau. After a search, illicit money for the illegal transactions totaling 145,195 renminbi and HK\$139,610 was discovered.

It was learned after investigation that of these 21 profiteers, only one was a native of Shenzhen, while the rest were from Hong Kong, Lianping, Haifeng, and other places. Seventeen were from Haifeng.

Profiteers Ye Hui and Chen Jinduan repeatedly carried out illegal foreign currency transactions. Profiteer Zheng Zhangbing set up a den for the illegal foreign currency business and solicited profiteers to engage in transactions in order to seek profits. They are guilty of severely disturbing the financial management order of the state. Therefore, they were arrested according to law by the People's Procuratorate of Luohu District in Shenzhen city. All illicit money used for illegal transactions by these 21 profiteers was confiscated by the state.

CSO: 4006/531

LABOR AND WAGES

LUO GAN DISCUSSES NEW TASKS OF TRADE UNIONS

Beijing LIAOWING [OUTLOOK WEEKLY] in Chinese No 3, 14 Jan 85 pp 10-11

[Special Report by Li Xianguo [2621 3807 0948]: "Luo Gan, a Leading Comrade of the China Federation of Trade Unions, Discusses the New Tasks Faced by Trade Unions"]

[Text] "Enterprises that just started implementing the factory director (manager) responsibility system on a trial basis have been bandying about the following jingle: Factory directors and managers have had their say, secretaries of party committees have stepped aside and presidents of trade unions have nothing to do. What is the situation like now?" Luo Gan [5012 1626], a leading comrade of the China Federation of Trade Unions, when receiving this reporter in his office, came straight to the point and began to discuss this problem.

Luo Gan, a 49-year-old senior engineer, studied in East Germany during the 1950's, and after returning to China, served as assistant head of the Zhengzhou Machinery Research Institute of the Ministry of Machine-Building Industry, director of the Henan Science Committee, vice governor of Henan and secretary of the Henan Party Provincial Committee. In 1983, he became deputy chairman of the China Federation of Trade Unions and deputy secretary of the leading party group, and he directed the daily work of the China Federation of Trade Unions.

He said that he recently carried out an investigation in Beijing and contacted the chairman of about a dozen grassroots trade unions that were expanding their autonomy on a trial basis. They all said that after a certain period of groping about, especially after the Third Plenum of the 12th CPC Central Committee, workers further confirmed their position as masters of their destiny, and the position, role and tasks of trade unions were better defined. The following four changes have occurred in most units that have already implemented the factory director (manager) responsibility system. First, workers are concerned about the fate of their enterprises as if there were no tomorrow and are concerned about who serves as factory director and manager. In the past, enterprises ate from the "big common pot" of the state and workers ate from the "big common pot" of enterprises. It did not matter much to the workers whether they did a good or bad job, it was all the same. Things are different now. The enterprises' profits and losses

directly affect the earnings of individual workers, and the fate of the enterprises is closely tied up with the fate of the workers. A deputy director of a factory in Beijing in general was an extremely exacting manager, and many people were punished; when the leading group was reelected, the workers were afraid that this deputy director might not be elected. What was the result? He was elected with nearly a full ballot. The workers said: "We want to elect people who understand technology, are competent managers and who govern their factories strictly. This way, the factories can flourish, the state can earn a large revenue and the workers can profit." Second, trade unions currently have high status, important tasks and a large role. In the past, enterprises did not have autonomy, and in addition, there was no separation between the party and government and between the party and the masses, and it was difficult to give play to the role of trade unions. Today, before factory directors make a decision concerning many important problems, they must first solicit the opinions of trade unions and workers. Trade unions no longer have nothing to do. Trade unions must study and research, organize the discussion for workers congresses, participate in the drawing up of plans, etc., and many important matters which they did not manage in the past they now manage. Thus, the position of workers as their own masters has also been strengthened. Through trade unions and workers congresses, workers in many respects now have the authority to deliberate and supervise. Third, the implementation of the factory director (manager) responsibility system has tied the party, government and trade unions closer together. For example, today the party and government departments of enterprises must concentrate on economic results, and trade unions are certainly no exception. If enterprises are not run well, workers will be dissatisfied, and the going will get tough for directors, secretaries and chairmen of trade unions. Otherwise, everyone would be happy. There is an old saying in China that goes, "Everyone shares the sorrows and the joys." Enterprises that are currently expanding their autonomy on a trial basis should really respond to this saying. Fourth, enterprises should start paying attention to improving relations between workers and intellectuals. Competition in enterprises is, after all, competition between knowledge, technical skill and talented personnel. However, because of many different reasons, knowledge and intellectuals have not received their deserved respect. Some enterprises give large and better housing to engineers and technicians, and a few workers make cynical remarks. Currently, it is not allowable for enterprises to perform technological transformations, update production technology and develop new products without knowledge and without understanding the technology. So long as enterprises are run, workers can gain material benefits. Not only would workers have a different attitude toward knowledge and intellectuals if they were clear about this argument, but the atmosphere would be more conducive for study in the factory and it would be a little easier to implement policies for the intellectuals.

Luo Gan continued by saying that this certainly does not imply that any enterprise units that implement the factory director (manager) responsibility system would be in good shape and that all of their problems would be readily solved. There are also factory directors who do not pay attention to giving play to the role of trade unions and do not pay attention to ensuring the position of the broad masses of workers as masters of their own destiny but

close the books on all individuals and do not even submit the formulation of reform plans and significant rules and regulations to workers congresses. The result is that these directors are not supported by the trade unions and the broad masses of workers, and they have a difficult time carrying out both reforms and production.

This reporter asked: "In that case, under current economic reforms, in what respects do you feel that we should give play to trade unions?"

Luo Can pondered for a moment and then said that he felt that we can give play to trade unions in the following six respects:

1. The more than 400,000 grassroots trade unions in China must organize workers to study the documents of the Third Plenum of the 12th CPC Central Committee, fully recognize the great historical significance of this reform and actively mobilize the broad masses of workers to take part in the economic reforms. Luo Can believes that most of China's trade unions and workers want to reform with all their heart, long for reform and are willing to reform. For example, in June of last year, 70 percent of the workers in 7 factories in Nayang and Zhaozuo endorsed the reforms and only 30 percent had some sort of doubts about the reforms. After the Third Plenum of the 12th CPC Central Committee, in a second survey of these seven factories, 98 percent of the workers endorsed the reforms.
2. Economic construction must be the key to the work of trade unions, and in enterprises, everything must center around raising economic results and toward accelerating the development of productive forces. Trade unions must be concerned with enterprises' production and management, must actively participate in every reform of an enterprise and must funnel the enthusiasm, wisdom and creativity of workers into improving management and administration and enhancing economic results. They must urge workers to use the attitude of being masters of their own destiny to carry out work, to actively participate in enterprises' technological innovations, technological transformations and the import of technology, develop technical cooperation and promote technological advances. The income of workers can continually rise and their collective welfare can continually improve provided that enterprises' products are competitive and that there are outstanding improvements in economic results. That is also to say that a few enterprises can become the first to be well-off and a few workers can also become the first to be well-off. This way, trade unions can be looked upon as truly representing the fundamental interests of the working class.
3. Trade unions must strongly uphold the implementation of the factory director (manager) responsibility system and support the guidance of factory directors and managers in management, administration and production. Currently, trade unions at all levels must be more clear ideologically, and trade unions must not only oppose but must hold identical views with factory directors and managers: their goals are to strengthen the enterprises' vitality and improve economic results. Factory directors and managers must support trade unions, and the work of trade unions can only progress smoothly if they have the support of factory directors and managers. No matter how

politically astute and no matter how skilled and experienced factory directors are in business, if they do not solicit the ideas and suggestions of the broad masses of workers and do not integrate their own authority with the role of workers as masters of their own destiny, then it will be impossible for them to give full play to the enthusiasm and creativity of the workers.

4. Trade unions must strive to promote the democratic management of enterprises and regard the establishment and perfection of the workers congress system to be key work. There are many different aspects to the authority and roles of trade unions and workers congresses: for example, the enterprise's reform plans; discussing the important policy decisions of enterprises; supervising the leadership's implementation of the state's plan and policies, reflecting the suggestions and demand of workers toward such important matters as enterprise management and administration, promoting the economic responsibility system and reforming the system of distribution; and upholding the legitimate rights and interests of the workers.

5. Trade unions must raise the ideological, political, technical and cultural quality of workers. I once went to a factory in which the trade union chairman introduced himself by saying, "I am voluntarily doing trade union work." I replied, "Good." He was extremely pleased when he heard this and introduced himself again by saying: "I was the only one of a number of factory directors who did not understand production. Thus, when the leading group was adjusted, I volunteered to go to the trade union." It seems that this type of trade union cadre is not an exception. How can trade union cadres who do not understand production, economic work and technology operate? The quality of workers must be high, and the quality of trade union cadres must be even higher. I feel that in the future, enterprises' trade union cadres must be elected, and cadres who conform to the conditions of the "four modernizations" should be elected to trade unions. Moreover, there should be a term of office.

6. Trade unions must dare to uphold the legitimate rights and interests of workers in enterprises. Because democratic rights and the legal system are not yet perfect in China, the democratic rights and interests of workers in some enterprises are still unable to be fully upheld, and sometimes the bureaucratic system is not concerned with the hardship of the workers. Thus, trade unions must justly and forcefully speak on behalf of workers and handle their affairs, and at the same time as upholding the collective interests of the state, correctly uphold the legitimate rights and interests of the workers.

12437

CSO: 4006/420

LABOR AND WAGES

MANAGEMENT OF HUMAN RESOURCES DISCUSSED

Beijing JINGJI RIBAO in Chinese 2 Feb 85 pp 1-2

[Article by He Shaohua [0149 4801 5478] and Liu Lianzeng [0491 6647 1073]:
"A Discussion of the Management of Human Resources"]

[Text] The restructuring of China's economic system which is developing in depth has caused the role of people in enterprises to become more and more important. Not only is this embodied in the enterprise managers themselves but also embodied in the broad masses of workers. In order to give play to their enthusiasm and creativity, we must place the management of enterprise workers on the order of the day.

The development of both labor-intensive and technology-intensive enterprises is inseparable from their human resources. The human resources of enterprises means people who can continually suit and promote the development of enterprise workers. Human resources encompass both the quantity and quality of workers. Without scientific management, the quantity and quality of workers cannot be given just play. For example, after a few enterprises expanded their workforce, not only did productivity not rise, but it even stagnated or declined. Because a few enterprises that imported advanced technology did not pay attention to giving play to the role of their technical personnel, the advanced equipment became "dead material", and the proper economic results could not be produced; conversely, this equipment became a burden to the development of the enterprise. These situations prove that enterprise development must strengthen the management of human resources.

The goal of the management of an enterprise's human resources is to cause the enterprise's human and material resources to be as integrated as much as possible, to give full play to the subjective activity of people, and to continually suit and promote enterprise development. Enterprise workers are the management objective in the management of human resources, and these workers include managers, technical personnel, workers, and other personnel. These personnel participate in the enterprise's production and management activities from different perspectives. This then creates the problems with rationally deploying enterprises' human and material resources and with using different personnel proportionately. This requires that we engage in the quantitative management of an enterprise's human resources. Of all productive forces, workers are the most dynamic and most revolutionary

element, and economic results will be adversely affected if production and management activity lack the subjective activity of workers. However, giving play to the subjective activity of workers is not something we can do by merely issuing a command. People think and feel, and they need both material life and spiritual life. How can we give play to the subjective activity of each person through the control of psychological activity, through the exchange of thoughts and feelings and by satisfying material and spiritual life? How can we give even greater play to the role of subjective activity by raising the quality of people? In order to solve these problems, we must engage in the qualitative management of enterprises' human resources.

The management of enterprises' human resources takes two forms: labor management and behavior management. Quantitatively, the management of an enterprise's workers is labor management, and qualitatively, the management of an enterprise's human resources is behavior management. The traditional form of management is primarily labor management, and the role of behavior management is extremely small. The scientific form of management is primarily labor management, but the role of behavior management is on the rise. Both labor management and behavior management are the primary form of modern management, and the transition is being made to behavior management as the primary form. Currently, a great number of China's enterprises in the management of their labor resources must both strive to strengthen labor management and pay close attention to behavior management.

Why is the quantitative management of an enterprise's human resources called labor management? First, the theory of capital organic composition that Marx pointed out when studying the capitalist production process informs us that the proportion of value of human and material resources in the course of production is a requirement for the proportionate and rational deployment of human and material resources that objectively exists in large socialized production. In the course of socialist production, we must also study and abide by this objective proportion. Whether or not human and material resources are rationally distributed directly affects the size of economic results. Therefore, we must engage in the quantitative management of enterprises' human resources and, based on changes in human and material resources, regularly cause the two to maintain the best possible proportion.

Second, the management of enterprises' human resources is based on the fact that material resources require human resources. This management activity is basically subordinate to the process of producing labor. Therefore, we call it labor management. The function of this type of labor management is mainly undertaken by the managers and administrators of an enterprise's production, and they ensure the smooth implementation of an enterprise's production and management activities.

The so-called qualitative management of an enterprise's human resources is the management of a certain quality inherent in people and the change in their quality. With regard to people as individuals, subjective activity is the basis of initiative and creativity, and ideological and psychological activity is also a prerequisite of subjective activity; the latter is mainly

manifested in the behavior of people. Thus, we must give full play to the subjective activity of people and strengthen the management of the behavior of individuals. With regard to groups of people, the subjective activity of each individual is definitely not a function formed by an entire group of people, because there is an inherent problem in this. The inherent problem can be solved as long as the ideological base of the groups is consistent and their feelings are harmonious. What socialized large production needs is the very best effects from the group function. To do this, we must coordinate the group's behavior, and this is then the management of group behavior. In short, behavior management means: on the basis of the laws of people's ideological activity, the laws of psychological activity, and the laws of behavioral changes, adopting modern scientific methods, carrying out scientific management of the ideology, psychology and behavior of people, causing the subjective activity of people to be given full play and so realize the goal of improving economic results.

Behavior management relates to people's ideological activity, and so people naturally ask: what is the relationship between behavior management and ideological and political work?

First, with regard to management activities, ideological and political work is the management of people's political and ideological activity. This type of management is very important because politics and ideology hold an important place in people's ideological activity. Yet the politics and ideology of one person do not include his entire ideological activity. For example, in managing the behavior of one person's ideological activity in the course of scientific research, we must not only manage ideological activity (including political and ideological activity) but must also manage psychological activity. From the viewpoint of systematic theory, ideological and political work is both the main component of a behavior management system and a one-person system. Second, with regard to management methods, behavior management is the comprehensive utilization of modern science provided by management science, psychology, behavioral science and other sciences.

Certainly, the emphasis of party work has already been switched to economic construction. Enterprises' ideological and political work must also undergo fairly large changes. Merely the connotations of ideological work not only include political aspects but also include work, study, livelihood and other aspects. For example, earnestly solving large marriage problems between males and females helps these comrades gain a deeper understanding of the advantages of socialism, to better work and study and to be able to improve their enthusiasm for work and study.

We can summarize by stating that with the development of China's socialist commodity economy, the importance and advantage in regarding ideological and political work as the key to behavior management will be completely manifested in the modernization of enterprises.

TRANSPORTATION

COMMUNICATIONS MINISTER ADDRESSES NATIONAL CONFERENCE

OW252347 Beijing XINHUA in English 1433 GMT 25 Mar 85

[Text] Beijing, 25 March (XINHUA)--In 1985, China will build 33 deep-water berths and complete the reconstruction of three crude oil wharves at the ports of Dalian, Qingdao and Nanjing, minister of communications Qian Yongchang said here today.

Addressing the opening session of a national conference on communications, Minister Qian revealed that designing, consultancy work and equipment bidding for the two 200,000-ton-class oil wharves would also be undertaken this year.

This year, China will build 20,000 kilometers of new highways and widen 30,000 kilometers of narrow roads. Asphaltting of the 1,900-kilometer Qinghai-Tibet highway (from Xining to Lhasa) will also be finished. Seventy-two new road bridges will be built over the Yellow, Han and other rivers, he said.

During the 1986-1990 period, the minister said, China plans to build 120 deep-water berths and 36 smaller berths at coastal ports. By 1990, he said, China's ocean ports would have a total of 542 berths including 319 deep-water and handle 500 million tons of cargo annually.

Priority in port construction would go to the 14 coastal cities recently opened to foreign investment, the Yangtze and Pearl River deltas, and an area of southern Fujian Province including the cities of Xiamen, Zhangzhou and Quanzhou.

Minister Qian said China would continue to sue foreign capital and import advanced technology in port construction. Foreign investment would also be sought for road building and inland river transport projects, he added.

He said, the country was planning to adopt special policies to give additional preferential treatment to foreign firms investing in joint transport projects in China.

The Ministry of Communications is now cooperating with the Netherlands in joint construction and management of berths at Nantong Port in southern Jiangsu Province, he said.

By 1990, China will have over one million kilometers of roads including 2,000 kilometers of expressways and first-class highways. At present, China has 920,000 kilometers of roads.

The construction of an express highway between the city proper of Shanghai with Jiading, a satellite town 16 kilometers away, was started last year. The Guangzhou-Shenzhen expressway and the Beijing-Tianjin-Tanggu expressway are in the planning and design stage, the minister said.

CSO: 4020/178

30 April 1985

TRANSPORTATION

GUIZHOU PLANS MASSIVE TRANSPORT IMPROVEMENTS

HK060312 Beijing CHINA DAILY in English 6 Apr 85 p 1

[By staff reporter Zhu Ling]

[Text] As part of a massive campaign to improve the transport network in Guizhou Province, 400,000 farmers are building and improving roads that will criss-cross the energy-rich province in southwest China and link it with the national transport system.

The construction effort is backed by aid from the central government, which is paying the rural road builders in the landlocked, mountainous province with 450,000 tons of grain, 46 million metres of cotton cloth and 9,000 tons of cotton.

Meanwhile, the State Council has decided to give similar material aid to the backward Guangxi Zhuang Autonomous Region to assist in construction of roads, reservoirs, pumping station and drinking water projects. Guangxi is inhabited by about 12 ethnic minority groups. Many people live in remote mountain areas that are not connected by road to the outside world.

This assistance from the central government is widely considered an effort to give the country's inland regions the same sort of economic boost currently being enjoyed by many coastal cities and special economic zones.

In an interview with CHINA DAILY yesterday, Guizhou's Vice-Governor Luo Shangcai said that the province also has set aside 10 million yuan for the road building project.

"The transportation development plan also includes electrifying railways and improving water channels for shipping, all aimed at the prompt delivery of our coal, phosphate and mineral products to our neighbouring provinces," Luo said.

Guizhou Province ranks first in vast southern China in coal deposits, totalling 49.2 billion tons. It is the chief coal supplier to the neighboring provinces of Sichuan, Yunnan, Hunan and Guangxi, each of which needs an average of 3 million tons of coal a year. Fujian and Guangdong also order a sizeable amount of its coal every year.

But only about 7 million tons of coal, or 28 percent of Guizhou's annual coal output, can be transported out of the province a year, the vice-governor said.

"Because of inadequate transport facilities, about 3 million tons of coal sit beside the coal mines every year," Luo said. There also are serious overstocks of phosphate ore, barite and marble, mineral resources in which the province ranks among the richest in China, he said.

Guizhou's 623 rural townships, covering some 20 percent of the province's territory, do not have road connections at all, and rural people are obliged to carry goods on their backs or use draught animals.

There has long been a saying about the mountainous province: "Guizhou has no more than three clear days in a row and no more three-foot stretches of flat road."

In a bid to buck this age-old reputations, the rural road builders plan to construct and improve 350 kilometres of highway this year.

"Our goal is to construct and improve 950 kilometres of roads in 3 years to link with our neighboring provinces," said Luo, 56.

These links also will improve when Guizhou's four existing railways, connecting Guizhou with its four neighboring provinces, are electrified. This project, which is now underway with state funds, is expected to be completed in 3 years.

This will increase the volume of rail freight by 3 million tons a year. The current rail freight volume is 16 million tons annually, which falls 4 million tons short even of the province's annual coal output.

The vice-governor revealed that the province is negotiating with a Hong Kong company to build a new railway to connect Anshun area in central Guizhou with the province's northwestern Zhiyin County, in which Feng Kuang Shan coal mine has a deposit of more than 9 billion tons of first-class coal. The estimated total investment for that project is 200 million yuan.

In addition, in the north, west and east parts of Guizhou Province are now being dredged. The new river routes will link Guizhou with Sichuan, Hubei and Guangxi.

Airport transport also is being improved. The province helped launch the Southwest Airline Company along with Sichuan and Chongqing last year.

CSO: 4020/178

TRANSPORTATION

DALIAN PORT CONCENTRATES ON EXPANDING FACILITIES

OW310950 Beijing XINHUA in English 0931 GMT 31 Mar 85

[Text] Dalian, 31 March (XINHUA)--Dalian Port is concentrating its efforts on expanding wharves and building an express highway and other transport facilities, according to the local officials.

Dalian, Liaoning Province, is one of the 14 coastal cities further opened to foreign trade and investment last year.

With an annual handling capacity of 40 million tons, the ice-free port has trade ties with more than 140 countries and regions. But as more and more foreign ships call at the port and China's foreign trade keeps growing, the handling capacity falls far short of demand. At present, dozens of vessels anchored out of harbors, waiting for unloading.

In order to change the situation, the port authorities decided to update the existing port facilities.

Now a coal terminal is designed to become a dock handling three million tons of coal annually and a crude oil wharf with an annual capacity of 15 million tons will be expanded to 20 million tons before 1990.

At the same time, a coal terminal with an annual handling capacity of five million tons and a bulk cargo wharf with an annual capacity of 1.2 million tons are under construction.

The total handling capacity of Dalian Port will reach 60 million tons annually, one third over the existing capacity, the local authorities said.

In addition, a 400-kilometer expressway linking the port with Shenyang, capital of the province is being built. The volume of cargo transported through the expressway will be equal to that by five railways, local officials estimated.

The city also starts construction of a big marshalling yard and is using the imported massive horsepower diesel locomotives, hoping to increase the transport capacity of railways by one third before 1990.

Since April last year when the city designated as one of the coastal cities open to the outside world, it has completed an airport which can accommodate

"Boeing 737's" and other big airplanes. New air routes will link the city with Hong Kong and Japan next month, according to the local officials.

Passenger and cargo liners will be available between Dalian and ports of Japan from 10 April, this year.

Last year, more than 7,000 businessmen and diplomats visited Dalian City to explore possibilities for cooperation.

The transactions, including using foreign funds and import of technologies by Dalian, came to 190 million yuan, 1.8 times the total of the previous 5 years. The city expects more foreign funds and technologies this year.

CSO: 4020/178

TRANSPORTATION

ELECTRIFICATION OF FENGTAI-SHACHENG RAILWAY COMPLETED

Beijing BEIJING RIBAO in Chinese 11 Dec 84 p 1

[Article by Mao Luo [7451 7170] and Hua Zhao [5478 2507]: "The Project for Electrification of the Fengtai-Shacheng Railway Section Completed Ahead of Schedule"]

[Text] The project for the electrification of the Fengtai-Shacheng-Datong Section of the Beijing-Baotou Railway has been completed ahead of schedule. On the morning of 10 December, the key section of the Datong Railway at its west end was put into operation with other sections expected to be put into operation one after another before the end of this year. The completion of this project is expected to increase its annual coal shipment out of Shanxi Province by 10 million tons.

The Fengtai-Shacheng Railway totals 379 kilometers. At its east end is the Fengtai West Station with the largest marshalling yard in north China with access to the vast region covering the northeastern, northern and eastern part of China through connections with the Beijing-Quangzhou, Beijing-Shanxi, and Beijing-Tonghua railways as well as the electrified Beijing-Shaanxi railway now still under construction. At its west end is the Datong Station which is connected with the Dantong-Pucheng Railway. By linking with the Baotou-Lanzhou and Jining-Erenhot railways, it can have access to the northwestern part of China. This rail line is an important passage through which coal produced in Shanxi Province and Inner Mongolia and Ningxia Autonomous Regions can be made available to the other parts of China. To speed up coal shipment out of there, since liberation, the Ministry of Railways has carried out several technical transformations of this railway section. As a result, the single track railway has been transformed into multi-track lines, steam engine locomotives have been transformed into diesel engine locomotives, and the semi-automatic block signals have been transformed into automatic ones, thus enabling the Fengtai-Shacheng Railway to increase its transport capacity by tenfold. But it is still far from able to meet the growing demands for shipping coal out of that region, whose output is also growing with each passing day. On the one hand, the coal mines in Shanxi and other provinces have been left no choice but "to base their output on the transportation capability" because a large quantity of coal which cannot be shipped to other parts of the country has been allowed to be consumed locally. On the other hand, energy shortage

has forced industrial bases in east and northeast China to operate at less than full capacity and to "base their output on the availability of coal." Authorities concerned said: After its electrification is realized, the Fengtai-Shacheng Railway can be expected to increase its coal shipment by nearly 10 million tons a year. According to the State Statistics Bureau, the shipment of every 10 million tons of coal out of Shanxi will bring an additional 17 billion yuan in output value and an addition 4.2 billion yuan in taxes to the state. An investment of 450 million yuan is needed in the construction of the project for electrification of the Fengtai-Shacheng Railway. This large-scale project calls for rebuilding and expanding 22 train stations; building 41 bridges and tunnels, 11 locomotive transformers, 2 electric locomotive maintenance sections, and 2 power supply sections; installing contact network wire extending for 1,300 kilometers; erecting some 18,000 power transmission poles and towers; laying trunk communication cables stretching for 516 kilometers; and installing block section panels capable of giving signals once every 8 minutes automatically. The full-scale construction of this project began on 1 June 1982 with the requirement that it be completed before the end of 1984, a schedule that was really very tight. The Fengtai-Shacheng Railway is a very busy communication artery frequented by trains once every 10 minutes. In the past, in the process of introducing electrification to various rail lines, time for construction could not be guaranteed because any request for reconstruction of any existing rail lines could be approved only through consultations between the construction units on the one hand and the relevant railway sub-bureaus and railway administrations on the other. In the course of the construction of the project for electrification of the Fengtai-Shacheng Railway, as a departure from the past approach, the Ministry of Railways has been authorized to set aside a fixed time (called skylight) [1131 4574] for construction in the transportation schedule in order to provide a guarantee for construction and transportation to proceed simultaneously.

The Fengtai-Shacheng Railway is one which must cut through complicated terrains including mountains and ridges. Its construction would become particularly hazardous in case of bad weather. Workers of the Electrification Bureau of the Ministry of Railways and the Beijing Railway Bureau have worked with one heart, cooperated with each other, and seized every crucial moment throughout the struggle. In the course of construction, the construction command formed by the electrification bureau and headed by its deputy chief and chief engineer as well as the involved first, second and third engineering departments have put into effect the economic responsibility system which obligates contractors to complete the project to the satisfaction of their employer and which closely ties the fruit of labor performed by workers to their economic interests, thus fully stimulating their enthusiasm for completing the project ahead of schedule.

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CSO: 4006/324

TRANSPORTATION

HU YAOBANG CALLS FOR RECTIFICATION OF RAILWAY WORK STYLE

Beijing BEIJING RIBAO in Chinese 11 Dec 84 p 1

[Article by Wu Jincai [0702 6930 2088]: "Hu Yaobang Calls on Railway Services To Act as Models in Rectifying Work Style"]

[Text] Hu Yaobang, general secretary of the CPC Central Committee, recently called on railway services to play an exemplary role in rectifying their work style. To this end, the Ministry of Railways has singled out seven worst districts and sections under the railway system as main targets whose unhealthy, irresponsible bureaucratic work style that has affected the party and people should be effectively rectified.

Today, the Ministries of Railways and Public Security held a telephone conference on maintenance of public security and order to which Chen Puru [7115 3877 1172], minister of the Ministry of Railways, conveyed Comrade Hu Yaobang's 2 October instructions attached to the report of the Party Organization of the Ministry of Railways on maintaining public security and order along the Xiangyang-Chengdu rail line. Comrade Hu Yaobang pointed out: "The work has been well done. Several years of experience have shown that the work styles of the party and society cannot be rectified by merely issuing appeals from higher authorities because of their long time existence. Many leading comrades have felt that they are unable to correct them and therefore, they have become gradually accustomed to their existence."

He then suggested to the Party Organization of the Ministry of Railways that "ten districts and sections with the worst work style be selected and lined up, and one more year may be needed to rectify their work style in coordination with the affected provinces and autonomous regions until success comes. Typical examples should lead the way. Chen Puru said: "Comrade Hu Yaobang's instructions are right to the point, and therefore, should be resolutely carried out by us all. Rectifying railway work styles is an important task to consolidate the party organizations of the railway system, a hallmark of whether our campaign to rectify the work style of the party can survive the test. He said: the Party Organization of the Ministry of Railways issued a circular on 18 October calling for conscientiously carrying out Comrade Hu Yaobang's instructions and effectively rectifying the work styles of the party and railway system.

At today's telephone conference, Li Jixiang [2621 7139 4382], director of the Political Work Department of the Ministry of Railways, made public the names of seven railway sections and districts determined by the Ministry of Railways as main targets whose work style needs to be rectified. Among them are the Hengyang-Baishidu Section of the Beijing-Guangzhou Railway, the Loudi-Dizhuang Section of the Hunan-Guizhou Railway, the Tianshui-Lanzhou Section of the Tianshui-Lanzhou Railway, the Baotou-Shizuishan Section of the Baotou-Lanzhou Railway, the Ebian-Xichang Section of the Chengdu-Kunming Railway, the Dushan-Jinchangjiang Section of the Guizhou-Guangxi Railway, and the Tongliang-Huolin Section of the Tongliang-Huolin Railway.

Li Jixiang said: As seen from the railway system as a whole, a remarkable improvement has been made in the practice of the work style. But since the revamping of the entire railway system is a heavy responsibility, a great determination must be displayed and vigorous efforts must be made in this direction. Only in this way can the fundamental objective of rectifying the work style of the railway system can be achieved. Yu Lei [0205 7191], vice minister of the Ministry of Public Security, also spoke at today's telephone conference, emphasizing the need to achieve unity in planning, command and action in the course of rectifying the work style of the railway system under the unified leadership of local party committees and governments.

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TRANSPORTATION

NEW RAILWAY OVERPASS NEAR BEIJING OPENS TO TRAFFIC

Beijing BEIJING RIBAO in Chinese 2 Dec 84 p 1

[Article by Yu Ping [0151 1627]: "Open Shuangqiao Railway Overpass-Highway Underpass Crossing to Traffic"]

[Text] The Shuangqiao railway overpass-highway underpass crossings located in the east suburb of Beijing--a vital aspect of the Beijing-Shaanxi Railway--officially opened to traffic yesterday.

The Shuangqiao railway overpass crossing project is one of many auxiliary projects which form the artery of the nation's Beijing-Shaanxi Railway. The purpose of its construction is to remove the traffic jams on Shuangqiao Road and to ensure the smooth flow of traffic along the Beijing-Shaanxi and Beijing-Chengde railways. In the past, because that road crossing was frequented by 6,000 to 7,000 motor vehicles of all types a day and a train every 5 to 6 minutes, the traffic jams there were really very serious. The Shuangqiao overpass section is 1,511 meters long with a bridge span, a structure of three heavy woodboards, which consists of 9-meter wide high-speed lanes, 4-meter wide low-speed lands, and 2 to 3 meters wide sidewalks. It is 4.5 meters high from the underpass below. Its completion will prove instrumental in removing the traffic congestion from that railway-highway intersection.

Bearing the responsibility for its construction were workers from the Beijing Municipal Third Urban Development Company. Under the pressures characterized by a tight schedule, heavy responsibilities, and numerous difficulties, they put into effect the contractual responsibility system, and worked hard day and night in order to complete the project in a matter of only 40 days instead of 6 months as originally planned. Credit should also go to the Chaoyang District Construction Committee and local residents for their role in bringing it to a successful conclusion earlier than expected.

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TRANSPORTATION

MORE TRAIN RUNS SCHEDULED TO MOVE PASSENGERS FROM BEIJING

Beijing BEIJING RIBAO in Chinese 25 Nov 84 p 1

[Article by Liu Pingping (0491 1627 1627) and Lu Yu (6424 1558):
"Contingency Measures Are Taken by the Ministry of Railways to Facilitate
the Movement of Passengers from Beijing"]

[Text] The Beijing Railway Sub bureau helped by the Ministry of Railways and other railway bureaus has adopted a series of contingency measures to increase its daily shipment of passengers by nearly 10,000 persons. As of 20 November, it had basically completed the transport of all waiting passengers from Beijing, thus initially relieving the city of a massive backlog of passengers awaiting outbound trains.

Since late October, vast numbers of travelers leaving Beijing have experienced unprecedented difficulties in getting train tickets, when a record 120,000 passengers boarded trains daily at Beijing, Yongdingmen and Xizhimen stations which together normally could handle some 100,000 passengers a day. Even after 11 pairs of passenger trains were redeployed to the Yongdingmen Station, the Beijing Station still saw nearly 80,000 passengers stream in to catch trains daily, bearing striking resemblance to the busy spring travel season long before its arrival.

To facilitate the movement of passengers, the sub bureau has moved quickly to add 4 pairs of trains capable of carrying 7,000 passengers to the train runs from Beijing to Wuchang, Wuxi and Shenyang and from Yongdingmen to Shijiazhuang. Furthermore, an average of 7 coaches capable of carrying nearly 1,000 passengers daily have been added to the train runs bound for Chongqing, Chengdu, Kunming, Guiyang, Xian, Shanghai, Dalian, Changsha, and Guangzhou. Through the strict enforcement of the policy of deploying rolling stock in a well-balanced way, and the reasonable use of the transportation power, guarantees can now be provided for long-distance travelers to purchase train tickets; through the adoption of the method of restricting travels between different zones and sections, the advantages of long-distance trains can now be brought into full play. Knowledge of modern business administration has been applied to overcome difficulties caused by shortages of coaches for temporary passenger train runs, and the reboarding method has been adopted to enable the 137/138th temporary passenger trains bound for Wuchang to proceed smoothly. Some 42 ticket

windows have been added to the Beijing Station for the benefit of vast numbers of passengers who has experienced difficulties in getting train tickets. Moreover, the three major passenger train stations have been required to pay cloase attention to exchanges in face value of tickets, to strengthen their verification, to display ticket face value distribution charts, and to tighten the ticket selling discipline so that nearly 3,000 tickets turned in for refunding everyday could be sent back to the ticket office for resale. According to the Ministry of Railways, nearly a month from now, another sharp increase in the number of train passengers can be anticipated. Departments concerned are now ready to adopt relevant measures to meet this challenge posed by the coming spring travel season.

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TRANSPORTATION

WEST CHINA AIRLINES ESTABLISHED IN XIAN

Xian SHAANXI RIBAO in Chinese 5 Nov 84 p 1

[Article by Guangming Ribao reporter Liu Bingyi [0491 3521 3832] and Shaanxi Ribao reporter Shen Yunjun [3476 , 39 7486]: West China Airline Company Established in Xian--Combine Efforts of Army and People, Tap Potential To Develop Aviation Industry"]

[Text] The West China Airline Company, Ltd. was officially established in Xian on 4 November 1984. This company is the largest and strongest among the recently-established aviation entities that combines the efforts of the army and the people, adopts an independent management system and assumes sole responsibility for their profits and losses.

The West China Airline Company, Ltd. is formed jointly by the China Flight Test Center, Hong Kong's Zhaoshangju Shipping Ltd., the Shaanxi Branch office of the People's Bank of China and the general office of the Shaanxi Technological and Economic Advisory and Development Company. The China Flight Experimental Research Center is China's only aircraft appraising and testing unit. It has abundant technological forces and modern air traffic control equipment. Hong Kong's Zhaoshangju Shipping Ltd. has over 110 years of management history, owns over 120 enterprises and is very powerful. Shaanxi is China's major aircraft industrial base. It is on such a basis that West China Airlines was established. Therefore, it will make a positive contribution to the development of China's aviation industry.

West China Airlines operates mainly in the provinces of northwest and southwest China. It uses Hong Kong and Xian as main passenger and goods distribution centers. On the basis of developing goods and passenger transportation, it will also engage in such businesses as organizing goods sources, wholesale and retail sales of commodities, market information and tourism. Along with the business development of this airline, special and local products of the vast area of northwest China will be quickly shipped to international markets. Imported foreign goods and materials will be quickly shipped to northwest China. Domestic and international passengers will also be able to enjoy more conveniences.

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TRANSPORTATION

SHAANXI HIGHWAY CONSTRUCTION DEVELOPMENT

Xian SHAANXI RIBAO in Chinese 19 Sep 84 p 2

[Article by Sun Jin [1327 2651] and Fan Guojun [5400 0948 0193]: "The Development of Shaanxi's Highway Construction Is Encouraging"]

[Text] In the past 35 years since the founding of the PRC, Shaanxi Province's highway construction has developed rapidly. By the end of 1983, 36,832 km of highways in Shaanxi Province were open to traffic, an increase of 19.3-fold over 1948. An initial form of highway network which has Xian as its center and links all cities, major mining and forest areas and neighboring provinces has been established.

Prior to liberation, only 1,908 km of highways were open to traffic in Shaanxi Province. There were some 1,000 road maintenance workers. Brigades basically had stone arches. Since the founding of new China, Shaanxi's highway construction has developed rapidly. As early as the early 1970's, all counties were already accessible by highways and 70 percent of Shaanxi's 91 counties had asphalt roads. By the end of 1983, 99.3 percent of Shaanxi's 2,606 villages were accessible by buses. Now Shaanxi has 24,644 km of graded highways, of which 235 km are second-grade, 5,658 km are third-grade and 18,751 km are fourth-grade. Shaanxi has 19,350 km of surfaced highways, the second most in the country, and 7,760 km of first and second-class highways. Some 15,246 km of highways are open to traffic in all weather, an increase of 63-fold over the period prior to the liberation. In the past 35 years, Shaanxi Province has built 3,608 bridges with a total length of 116,503 meters and established a highway maintenance and construction contingent of 13,836 workers as well as a backbone technological contingent of a fairly large number of people who not only take on the task of maintaining and building highways in Shaanxi Province but also contract for engineering projects abroad.

Since the 3d Plenary Session of the 11th CPC Central Committee, people's governments at all levels have attached greater importance to highway construction, bringing about an initial upsurge in road maintenance and bridge construction. During the three-year period between 1979 and 1983, 3,256 km of highways were built. Even in the area where there used to be roads leading to Sichuan Province which were described in history as being more difficult to get to than heaven, there are now seven highways winding

through high mountain ridges. Shaanxi has also built 973 bridges--four on the Hanjiang alone. Some 17,260 km of highways have trees and highways on the central Shaanxi plain basically all have trees and shade. Shaanxi is vigorously building a first-grade highway between Xian and Sanyuan. It is 34 km long and will be the first first-grade highway in northwest China. According to the needs of Shaanxi's economic development in the future, we estimate that Shaanxi Province should have over 40,000 km of highways by 1990 to satisfy the needs of the development of the rural economy and tourism.

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TRANSPORTATION

SPEEDY BUILDING OF LOCAL RAILWAYS IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Li Yang [2621 7122] of the Huaiyin City Government: "Proposal on the Speedy Building of the Yihuai Local Railway"]

[Text] Some comrades maintain that we should vigorously develop railways in northern Jiangsu. I agree. Railways have the recognized advantages of large transport capacity, high speed, low production costs, economical freight rates and good economic results. We should use railways as the framework for communications in northern Jiangsu and develop highways, water transportation and civil aviation accordingly.

The current communications system of Huaiyin City consists of water and land transportation with emphasis on the former. Last year the freight volume of water transportation in this city exceeded 8.88 million tons, accounting for 46 percent of the total transport volume of the transportation system. The freight of water transportation consists mainly of coal, gravel, grain and some manufactured goods. Because the transport capacity of harbors and channels is insufficient, the navigation rate is only 27 percent and vessels are often "blocked in the middle (by ship locks) or stuck on both ends." Along with the future development of a commodity economy, freight and passenger volume is bound to increase continuously, relying on water transportation and highways alone will not do. We should consider building railways.

We suggest we quickly build a railway between Xinyi and Huaiyin and extend it to the south to Yangzhou, Nanjing, Yancheng and Nantong. If we put off building this line in the south, we can link it up with the Longhai Line in the North and connect it to the national railway network. We can also strengthen ties with Lianyungang harbor to help Huaiyin City open up to foreign countries. The 8 million people of Huaiyin City have long been looking forward to building the Yihuai Railway. Recently we invited some experts to conduct surveys for this project. Wherever they went, cadres and the masses applauded and ran around spreading the news. Some said: "Efforts to harness rivers in the past have given us the lifeline; building railways now can unclog arteries and propel our city's economy to develop by leaps and bounds." Others said: "Way back in the Qing dynasty, Qingjiang City

already built a short section of railroads. Today we have more conditions for speedy building of the Yihuai Railway." Some foreign friends who visited the former residence of Premier Zhou also suggested we build railways.

Drawing on the experience of Henan Province, we can build the Yihuai Railway as local railways to save on investment, reduce the construction time and achieve quick results. Our principle for the railway project is to mobilize the masses, raise funds from all fields, use local funds as the key and state funds as the supplement, support railways with railways and gradually improve railways after they are open to traffic. According to preliminary surveys, the total length of the Yihuai Railway is 110 km and the cost of building it is about 800,000 yuan per kilometer. It is estimated that the investment will be recovered in 7 years after the railway is put into operation. Comrades of Shuyang and Huaiyin counties, which are on the proposed Yihuai railway line, expressed their counties' willingness to contract for land requisition and labor. The Jinan Railway Administration said it can provide free used rails and equipment removed from state railways. If the Yihuai Railway Project is drawn up soon, it takes only 3 years to complete it--from preparation to test run. Henan Province has more than 1,300 km of local railways. We, too, are fully capable of building local railways in northern Jiangsu. If higher departments cannot reach agreement, it will not hurt to begin building the Yihuai Railway on a trial basis.

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TRANSPORTATION

ECONOMIC IMPACT OF WATER TRANSPORT IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Dong Wenhui [5516 2429 5706] of the Jiangsu Provincial Communications Department: "The Superiority of Water Transport in Northern Jiangsu Must Not Be Ignored"]

[Text] Northern Jiangsu now has 1,371 channels and 16,823 km of navigable waters, accounting for 71.5 percent of the mileage of channels in Jiangsu Province. In northern Jiangsu, rivers, lakes and seas are connected and river networks cover all areas (except for Xuzhou and Lianyung harbor where there are only a few river courses). Northern Jiangsu has had the superiority of vessels since ancient times. Water transportation occupies a decisive position in the whole communications network of northern Jiangsu. The major problem is underdeveloped channels. The overwhelming majority of channels are still in natural form. Harbors are poorly equipped, causing vessels to be stuck at both ends (of harbors) or blocked in the middle (by ship locks). The vast superiority of water transportation in northern Jiangsu has not been brought into full play. Then which shall we focus on when developing the communications of northern Jiangsu--rail or water transportation? Let us make an analysis and comparison:

First, let us draw on the experience of foreign countries. In the beginning of this century, inland navigation in the United States began to sag as railways rose. However, since the 1930's the federal government has adopted comprehensive measures to harness the Mississippi and its tributaries in regard to navigation, flood control and power generation, thus canalizing the river, connecting major and minor river courses and causing inland navigation to develop quickly again. Fully utilizing abundant and inexpensive water resources has become an important condition for developing modern industries in foreign countries. Eighty-two percent of U.S. steelworks and 93 percent of U.S. metallurgical enterprises are built on the banks of the Mississippi. Between 1952 and the end of 1977, more than 10,000 U.S. enterprises were built or expanded along the river, making the Mississippi the "industrial corridor" for iron, steel and chemical industries. Energy consumption of U.S. inland navigation is three-fifths lower than that of rail transportation, and its cost of production is three-fourths lower.

Let us take a look at the reality of northern Jiangsu. Northern Jiangsu is indeed endowed richly with water resources. There is only one large harbor

(Lianyung harbor) on its 1,000 km coastline. The long coastline awaits development and there is great potential of building sea ports and developing sea transportation. The 400-km bank line of the Changjiang now has two large and medium harbors--Nantong and Gaogang--and some simple docks. Many deep-water bank lines have not been utilized. Located on the lower reaches of the Changjiang, Jiangsu Province has wide rivers and deep waters. Between Nanjing and Hankou, 5,000-ton river steamers may be allowed to navigate all year and between Nanjing and the mouth of the Changjiang, 15,000-ton ocean vessels may be allowed to navigate on tide. The current freight turnover density of the Changjiang's trunk lines is equivalent to that of only one railway. It is estimated that the trunk lines of the Changjiang have the shipping capacity of more than 10 railways. It is evident that the Changjiang has great potential in transportation. The annual traffic volume of the 403-km long Subei canal has exceeded 20 million tons. The volume will increase by over 10 million tons after the canal's extension project is completed in 1987. Compared with rail transport, water transportation has the following advantages:

1. Good navigability and large carrying capacity. One Changjiang has the shipping capacity of more than 10 railways. Even a second-grade channel can match about two railways. The carrying capacity of vessels cannot be compared with other means of transportation. A train on general railway lines now can carry only 1,700 to 2,100 tons of freight. A 6,000-horsepower fleet on the Changjiang can carry an average of over 30,000 tons, more than what 10 trains can carry. After being dredged, the Subei canal can accommodate 1,000-ton barges. Two barges can carry about the same as one train does. Even on a sixth-grade channel which can accommodate only 100-ton barges a fleet can pull 1,200 tons of freight.

2. Small investment of construction and low consumption of materials. Building 1 km of railway in northern Jiangsu needs about 1.5 million yuan of investment. Developing channels needs very few investments because natural river banks can be utilized. Dredging sixth-grade channels needs only 200,000 to 600,000 yuan per km. Besides, building a 1,000-ton fleet of barges needs only 280 tons of steel products, but building a railway freight train of the same carrying capacity needs at least 400 tons of steel products.

3. Low energy consumption and transportation cost. Inland water transportation can pull 4 to 8 tons of goods per horsepower. The diesel locomotive of a railway freight train can actually pull only 0.74 tons per horsepower. After comparing the 1978 shipping costs of China's railways and the Changjiang's trunk lines, the departments concerned discovered that the shipping cost of rail transport is 18.9 percent higher than that of water transport per 1,000-ton km.

4. A little farmland occupation. Building 1 km of railway in northern Jiangsu needs to occupy about 40 mu of land. If we build the 280-km long Ningtong line, we need to use 11,200 mu of land. Since water transportation uses natural river courses, no land or little land will be occupied.

It is thus evident that water transportation is obviously superior to railways. The theory that industry and commerce develops faster wherever there are railways is not absolutely correct either. For example, the three counties of Peixian, Xinyi and Donghai are on the Longhai line, but their economic development is slower than that of Yangzhou and other counties in southern Jiangsu that are far away from railways. The key to the speed of economic development is whether or not traffic is unobstructed. The modes of transportation should be suited to local conditions. It would be hard for us to avoid one-sidedness if we simply emphasize the role of railways.

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TRANSPORTATION

ECONOMIC ROLE OF RAIL TRANSPORT IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 3 Nov 84 p 2

[Article by Xu Xuejin [6079 1331 6855] of the Yancheng City Communications Bureau: "Use Railways To Bring Along the Urban and Rural Economic Community of Northern Jiangsu"]

[Text] Building the Subei Railway has long been the common wish of the people in northern Jiangsu. Along with the rapid and sudden development of industrial and agricultural production in recent years, the transport volume of import and export goods and materials will increase by a large margin. Existing highways and water transportation routes are already unable to suit the needs of such development. Building the Subei Railway is the fundamental solution to the problem of clogged communications.

One of the major problems is caused by the limited number, slow speed and high cost of the transportation routes in northern Jiangsu. Building railways can increase economic results. Practice has shown that because of the large transport volume, fast speed and low cost, railway transportation is superior to highways. As for water transportation, because of the poor conditions and small capacity of channels and the backward means of transportation, its cost cannot be lower than railways.

One of the lines of the proposed Subei Railway runs from Xinyi to Yangzhou via Huaiyin. We think something is irrational in this proposal because it cannot solve the real problem of backward communications in northern Jiangsu. The Grand Canal, located north of Yangzhou, can basically satisfy the transport needs of the area along its banks. Therefore, it seems unnecessary now to build railways in this area. In our opinion, the line should run from Lianyung harbor to Nantong and then connect Nantong with Pukou. This can connect the line with the Longhai line in the north and the Huning line in the south, linking up Xuzhou, Huaiyin, Yancheng and Nantong. Only by doing so are we really able to build the urban and rural economic community of northern Jiangsu that is centered in Lianyung harbor and Nantong to bring along Huaiyin and Yancheng.

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BRIEFS

VETERANS OPEN CONSULTING FIRM--Shanghai, 14 March (XINHUA)--Retired merchant naval officers have started a shipping consultancy center here. Officials of the global shipping consultancy center include China's first-ever pilot, Huang Muzong, 92, captains and maritime law specialists. The center's honorary director is Peng Deqing, former minister of communications, and now president of the China Marine Navigation Society. The center offers advice on maritime management, decision-making and technology, the organizing of maritime symposiums and translating technical materials for government organizations, groups and enterprises. Books written by officials of the center will be published soon, including "engine management," "elementary vessel operations" and "vessel communications." The center has completed a technical assessment on a shipwreck for the Shanghai Changjiang Shipping Company. [Text] [Beijing XINHUA in English 1430 GMT 14 Mar 85 OW]

OPENING POSTAL ROUTE--The postal route from Beijing to Taiyuan designed for heavy-duty trucks opened to traffic yesterday. During the past several years, with the news and publications services developing rapidly in the Capital of the PRC, the mail volume has grown year after year. A delay in the delivery of heavy loads of magazines and other mails remained the order of the day despite a series of measures taken by the Ministry of Railways and the Post Administration. To solve this problem, the Beijing Municipal Post Administration and the Shanxi Post and Telecommunications Administration have decided to open the postal route from Beijing and Taiyuan to heavy-duty trucks as part of an effort to supplement the railway mail services. A round trip taken by heavy-duty trucks along this route logs 13,000 kilometers and takes them 4 days to complete. This mail service is scheduled once every week. The special heavy-duty trucks used to deliver mail along that route are imported from abroad with each capable of carrying 13 tons of magazines and other parcels. [Text] [Beijing BEIJING RIBAO in Chinese 2 Dec 84 p 1] 9574

CSO: 4006/324

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ANALYSIS OF JAPAN'S POSTWAR STRATEGY IN TECHNOLOGY IMPORTS

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 10, 10 Oct 84 pp 68-73

[Article by Sheng Jiqu [4141 4949 0530]: "How Postwar Japan Carried Out Technology Import"]

[Text] In a short span of 15 years or so, by means of technology imports Japan mastered the technological achievements that took Europe and the United States half a century to accomplish and successfully realized the modernization of its science and technology as well as its national economy.

I. Technology Import Is an "Important Pillar" of the "Base the Nation on Trade" Strategy

Postwar Japan was an island nation deficient in natural resources, short of capital accumulation, technologically backward and with a very small market. Given these national conditions, Japanese monopoly capital and its government decided on a "base the nation on trade" strategy for the development of its economy. This strategy encompassed setting up industrial zones along the Pacific coast, vigorously developing foreign trade and relying on the import of technology and raw materials to develop a processing and manufacturing industry, opening up the international market, use of foreign exchange earnings from the sale of finished export products to pay for imported raw materials, technology and equipment, and in this way catch up with and surpass advanced countries in the world, fulfilling the strategic goal of modernizing science and technology as well as the national economy.

The difficulty in pushing ahead with the "base the nation on trade" strategy lay in the high transportation cost resulting from importing raw materials and selling products over long distances, which weakened the competitiveness of Japanese commodities in the international market. Under these circumstances, apart from developing its coastal industrial zones, improving its seaports, sea transport and other basic facilities and adopting advanced mass-transport in order to reduce cost, the most basic solution was to make use of advanced technology and equipment, modern production technology and methods as well as management and administrative techniques to reduce human and material labor consumption, increase productivity and reduce the socially necessary labor time of Japanese commodities to below that of other countries so that the average value of Japanese commodities would be less than the international

market value of similar commodities. Only thus would Japan be able to "sell commodities at a price higher than their individual value but lower than their social value" in the international market. Therefore, the success or failure of the "base the nation on trade" strategy hinged upon whether Japan could establish its technological superiority through technology imports and the use of foreign capital.

Importing advanced technology from abroad is a universal law and the only way for all backward countries to catch up with and surpass the advanced countries. At the beginning of this century, Germany succeeded in surpassing Great Britain because it introduced from Great Britain new technological achievements of the industrial revolution; the United States surpassed Europe in the middle of this century also because it imported advanced technology from the latter. It is especially true that postwar Japan achieved economic development by "leaps and bounds" through importing advanced technology and became the number two "economic power" in the capitalist world. Japan's strategic policy of using technology imports to catch up with and surpass advanced countries in the world has been entirely correct and successful.

First, it gained the time needed for catching up with and surpassing the leaders. According to an estimate in "An Introduction to Advertising" compiled by the Electronic Communications Co in Japan, it took an average of 5 to 7 years for a technological item to go into mass production from invention in the 1960's. However, it only took Japan about 2 and a half years from technology imports to mass production. Between 1950 and 1970 the amount of time Japan spent on mastering the 9,870 class-A technological items it imported was approximately one-fifth of what would have taken if it had started from scratch. In other words, by means of technology imports, Japan only took 10 to 15 years to complete the same course that had taken Europe and the United States half a century, thus providing a prerequisite for catching up with and surpassing advanced countries in the world and realizing modernization.

Second, it saved capital. According to estimates, between 1950 and 1970 Japan spent approximately US\$6 billion on technology imports and on assimilating and promoting them while the direct and indirect costs of the scientific research, testing and design required for the invention of these technological patents were approximately US\$180 billion to US\$200 billion. Research expenses of this size would have been an impossible burden for any single advanced European or American countries, much less Japan which was critically short of capital at that time. It was basically impossible to accumulate that much capital in a short span of 10 years or so. Therefore, by importing advanced technology, Japan was virtually saving a huge amount of capital for itself thereby speeding capital accumulation for the realization of its strategic goal.

Third, it increased productivity, reduced costs, improved product quality and initiated conditions for Japanese goods to enter the world market. The productivity of its principal export commodities such as steel products, ships, color television sets, high fidelity stereo equipment and automobiles far exceeds that of advanced European and American countries. Take for example the gross productivity of enterprises in the auto industry. In 1979

Japan's Toyota Automobile Corporation had an annual per capita production of 54.8 cars, which was 3.8 times higher than General Motors, 3.2 times higher than Volkswagen, 4 times higher than Fiat, and 15.6 times higher than British Leyland over the same period. Because of the absolute superiority of the productivity and rate of growth of Japan's principal export industries for a long time, Japanese monopoly capital has been able to easily promote its own commodities and under-price them in the international market and to continually increase its share of the market. As the Western press has freely and openly admitted: Owing to their relatively slow increase in productivity, European and American countries "could not but lose ground to their competing opponent not only in the world market but in their own domestic markets as well." There are many factors that determine the level of productivity, but "the main ones are scientific capability and technological capability." Moreover, the Japanese government believes that "technological advancement is mainly obtained through the introduction of technology from abroad."

Fourth, it promoted rapid growth of the Japanese economy. Between 1950 and 1970, postwar Japan realized a long period of 20 years of rapid growth which included the preparatory phase for rapid economic growth. The annual average rate of economic growth in the period was 9.7 percent. Japan's international economic status was greatly enhanced because of such growth. In 1956, the year of Japan's economic take-off, Japan's GNP ranked 7th in the capitalist world and still trailed India and Canada. But by 1967, it became an "economic power" in the capitalist world second only to the United States. According to the analysis of the well-known experts Watanabe Tsunehiko and Ekaitsu Tensei, between 1952 and 1961 the average production growth rate of Japanese industries as a whole was 10.54 percent, of which 67 percent had been caused by technological advancement. Moreover, according to the calculations of the well-known economist Shinohara Meiyohei and others, the average annual growth rate for the periods between 1960 and 1965 and between 1965 and 1970 was 9.7 and 11.6 percent respectively, of which 59.7 and 60.3 percent respectively could be attributed to technological advancement. In other words, the rapid growth of a technological economy mainly relied on technological advancement brought about by technology imports.

II. How Postwar Japan Conduct Technology Import

A. Setting up and strengthening a unified leadership system for technology imports and foreign capital utilization.

1. Formulating and perfecting related economic legislation, policies and systems. In 1949 and 1950 the Japanese government promulgated the "Foreign Exchange Law" and "Foreign Investment Law" respectively. The main purposes of Japanese monopoly capital and its government in enacting these laws were: (1) to actively promote the import of advanced technology; (2) to protect the healthy growth of national industries against the impact of foreign capital. In 1952, the Japanese government further promulgated the "Law for the Acceleration of Rationalization of Enterprises." Simultaneously, Japan also established a "subsidy system" to encourage the introduction of technology from abroad, providing enterprises which imported the most advanced technology with subsidies that were equivalent to one-half the import cost. All these legislation, policies and systems played an important role in safeguarding and

promoting the healthy and orderly import of technology and foreign capital.

2. Setting up and strengthening a reviewing body for the import of technology and foreign investment. As provided by the "Foreign Investment Law," the Ministry of Finance, the Bank of Japan and the Foreign Investment Council would serve as reviewing bodies for the import of technology and foreign capital. The import of class-A technology required the joint review and approval of the Minister of Finance and other responsible ministers concerned; details of import were handled by the Bank of Japan and the Foreign Exchange Bank. The Foreign Investment Council was chaired by the Minister of Finance, and council members consisted of deputy ministers from various ministries concerned as well as knowledgeable and experienced specialists. The membership was originally fixed at 10 and was later expanded to 15. All major items to be imported had to be investigated and reviewed by the council. The reviewing body was highly efficient because it was simple in structure, centralized and unified, defined in its authority and manned and managed by experts.

3. "Administrative guidance" system. This is a management system with considerable "hidden authority," that is, a system by which the government could intervene and control technology imports. Through various consulting agencies, the Ministry of International Trade and Industry would frequently call meetings with technical specialists to jointly study and decide on the orientation, emphasis and topics of technological development and imports for particular periods of time. In reviewing applications for technology imports by enterprises, the government applied the principle of "rewarding those that conform, barring those that do not." Therefore, to a certain extent it overcame indiscriminate import of technology. Occasionally the government even directly participated in technology import negotiations, forcing concessions from the exporting parties by means of reviewing procedures and causing them to withdraw excessively harsh terms.

B. Adequate preparation is the key to success in technology imports.

1. Keeping abreast of technological information inside and outside the country and importing selected items in a timely manner. Whether information can be grasped sufficiently, accurately and promptly is the key to the success or failure of technology imports. Hence neither the Japanese government nor private industries would spare any expenses in forming specialized agencies to collect and study technological intelligence. The government has set up its S&T intelligence center and various major industries also have specialized intelligence organs. The size of the intelligence organs of major trading firms is even more astounding. Mitsubishi Corporation, Japan's largest trading establishment, has 115 overseas offices throughout the world, employing 900 Japanese and 2,000 local personnel all engaging in intelligence gathering, and technological intelligence forms an important part. Mitsui Company named its intelligence organization the "Mitsui Universal Communication Network." It has 5 computerized communication centers located in Tokyo, New York, London, Sidney and Berlin, with exclusive communication lines 400,000 kilometers in length. All these communication centers are interlinked by satellites. It takes only 5 minutes to communicate between any two points farthest apart on earth. The headquarters in Tokyo alone processes

30,000 pieces of information each day. There are also hundreds of think-tank agencies such as Nippon Research Institute of Technology and Economics and Mitsubishi Research Institute which specialize in gathering and studying information and which provide consultation services. They have a sizable pool of first-rate specialists from various disciplines who are able to provide compensated services in technological information and its evaluation at any time. They can also make medium and long range analyses and forecasts on trends in S&T developments thereby pointing to the right direction for technological development and imports. In this way, when importing technology, the various enterprises are enabled to "make informed decisions easily and conduct imports in an assured, accurate and timely manner."

2. Preceding imports by scientific scrutiny and striving to be foolproof. Prior to importing technology, Japan generally made feasibility demonstrations particularly with major technical policy decisions. For example, in the early 1950's the shortage in electric power supply became a "stumbling block" for the recovery and development of the Japanese economy. As a solution to this contradiction, it was proposed that large thermal power equipment be imported from the United States and that the composition of energy resources of the Japanese electric power industry be enhanced. Before this major decision was made, the well-known Japanese expert Matsunaga Yasuzaemon not only had conducted a long-term investigative study and comparative analysis at the Central Research Institute of Electrical Power Industry which he operated, but he also personally made an investigative trip to the United States and at the end conducted a feasibility demonstration from the technical and economic point of view. Based on irrefutable materials and data, he concluded that not only would importing large thermal power equipment from the United States to build gas-fired thermal power plants take less time than building hydropower stations, but both the construction cost and power production cost would be lower, thereby rationally persuading those who held other views. This policy decision played a decisive role in guaranteeing the supply of electric power necessary to the rapid growth of Japan's economy.

3. Effectively preparing for assembly at home. Today, technology becomes obsolete at a much faster tempo. If it is not immediately put into production and use, advanced technology may soon become outdated and lose the value for which it was imported. Therefore, Japanese monopoly capital takes pre-import preparation seriously. For instance, the Toyo Rayon Company began negotiations in 1953 on the prospective import of polyester fiber production technology developed by the Empire Chemical Company in Great Britain. At the same time, the Japanese firm also began research on the production technology of polypropylene. When an agreement appeared imminent in 1956, it purchased land in Mishima for the site of the new plant. In 1957, construction of the plant began as soon as the contract for technology import was signed and in the following year it began production, sale and export.

C. In order to maximize economic results, Japan generally adhered to the following principles when organizing technology imports.

1. Let the easy precede the difficult, gradually increasing complexity. Following the end of the war when Japan was short in foreign exchange and the gap in technological capability was considerable, the pattern of import by

taking the easier ones first, taking short steps but moving fast, proceeding in an orderly, step by step manner but also speeding up accumulation, was both practical and effective. In the 1950's, Japan's technology imports mainly consisted of machinery equipment, blueprints, simple technological information, some technical know-how, recruiting foreign technicians and low-grade technical items. This type of technology was not only easy to master but was also inexpensive, averaging from US\$30,000 to US\$60,000 per item. But very quickly they increased productivity, improved the quality of products and expanded the scope of export. In the 1960's when Japanese enterprises achieved a definite accumulation in both capital and technology, they began to import new technological items that were larger in scale and more complex, each costing an average of US\$150,000 to US\$250,000, and day by day the imported items were swinging toward the high-grade categories. In the late 1960's and early 1970's, the emphasis gradually shifted toward electronics and other highly advanced technology, each item costing almost 10 times that of the early 1950's.

2. Selectively adopting the strong points of everyone and assembling the best in the world. Generally speaking, products from an imported technology that has already been in the market are usually less competitive. However, because Japan has been good at adopting the strong points of others and bringing advanced technology in the world into their own hands, they have even managed to put the exporters of individual technological items in a relatively disadvantageous position. The most typical example is the technology imports of Japan's steel industry, which has synthesized almost all advanced technology in steel industry in the world.

3. Combining "import" with "innovation" while aiming at innovation. The Japanese believe that the ultimate goal of their technology imports is to inherit what has been achieved, and on the basis of these achievements they keep on climbing until they reach the "summit" of their unique modern technology system. To assimilate and develop what has been imported, Japan often spends several times or even 10 times the import cost. In commenting on this form of import, a Japanese scholar said that although Japan will take in anything, "what they produce is uniquely Japanese." For instance, on the basis of imported technology, Sony Corporation has brought 16 new products to the world including the market-sweeping mini-television, desk computer, Betamax video recorder, among which the technology in color television is most representative. On the basis of chromatron it imported from the United States in 1962, after tackling key problems for 6 years, in 1968 it successfully developed the Trinitron, which is currently placed next to Edison's phonograph in the United States as an exhibit of historical importance.

Japan is particularly good at transforming what it imports into composite technology. The most typical example is the Betamax video recorder for home use. The video recorder is actually nothing more than the application of semi-transistor integrated circuits on video recorders. As early as 1956, Ampex Corporation in the United States successfully developed and manufactured the magnetic video tape recorder for professional use, but it was no simple matter to develop the heavy and expensive recorder into a portable one for home use. Around 1970, Japan, the United States and Europe all started to

develop it but finally in 1976 it was Japan that succeeded, thereby enabling it to monopolize over 90 percent of the world market for this product.

4. Providing for rainy days in a bid for success. For incomplete strategic realms of technology which are short of accumulation of funds and technology and which for the time being cannot be independently developed due to the lack of capability, Japan's policy has been: neither let slip an opportunity to import nor expend energy. It would accumulate knowledge through imports and wait for the opportunity to act. Take for example the case of atomic power generation technology which was undoubtedly very "good news" to energy- and resource-deficient Japan. In the mid-1950's Japan knew that this could not be commercialized entirely by one country, but she would not forfeit the opportunity to import it either. As early as 1957, a relatively more advanced reactor--the modified gas-cooled reactor--was introduced from Great Britain. In December 1959 the first experimental nuclear generator was built in Tokaimura. But after that no newer reactors were imported. With this technology import it accumulated knowledge and experience in atomic power generation. Consequently, when General Electric Company in 1964 won the bidding and right to build its light water reactor in the Oyster Creek Power Plant at a construction cost of 0.405 cents per kilowatt-hour, which was much cheaper than that of a gas-fired thermal power plant, Japan was immediately able to import this commercialized type of reactor in May 1966. Since then, nuclear power plants have developed rapidly in Japan. As a result, Japan entered the age of nuclear energy shoulder-to-shoulder with the United States and other advanced European countries.

5. Storing up both the "soft" and the "hard" while putting the emphasis on the "soft." If we regard the purchase of the rights to use patented items, blueprints, technical know-how, laboratory techniques and other pure technology imports as "soft imports," and that of advanced equipment as "hard imports," then the Japanese policy in dealing with the two has been "storing up both the soft and the hard while putting the emphasis on the soft." Moreover, even in cases of "hard imports," Japan would try its best to obtain the blueprints along with the equipment. Particularly when in the 1960's Japan entered the last phase of its rapid economic growth and had already attained a definite technical foundation and the capability to manufacture equipment, even stronger emphasis was put on "soft imports" in technology imports. Importation of high-level imported technology of incomplete laboratory technology and other high-grade technology increased daily. An example is the technology of the rotary engine introduced from the Federal Republic of Germany by Toyo Kogyo Company in 1960 which no one had ever been able to put into mass production. In order to solve the technical problem of "vibrational wear marks" in the inner side of the engine casing, the company assembled a technical task force of 47 people averaging 25 years of age to form the "rotary engine research department." In May 1967, after 8 years, they finally succeeded in manufacturing an automobile equipped with a rotary engine. This engine which is low in vibration, low in noise, economical in parts, and powerful has played an important role in Japan's development of lightweight compact cars and in winning acclaim as the world's "automobile kingdom". This form of technology imports has the advantage of saving a lot of foreign exchange, benefiting the training of qualified persons and

providing them the opportunity to master the world's most advanced technology in a relatively short time. Moreover, they may even re-sell technology and "use exports to support imports." For example, Furukawa Chemical Company imported the unfinished technology of medium pressure polyethelene from Indiana Standard Comapny in the United States. They followed up on its development and later resold it to the original company.

D. Combining the import of advanced equipment with reverse engineering is an important means to master advanced foreign technology and products, constantly innovate and establish one's own distinctive technological system.

What is referred to as reverse engineering involves comprehensive, systematic and in-depth analysis and study on advanced foreign products. It conducts destructive analytical studies on as wide a variety of the same kind of product as possible; carries out systematic analysis of a product's structure, materials, technology and packaging; and makes use of every available scientific means of testing and analysis to achieve an in-depth understanding of its internal details. Through reverse engineering, Japan has not only rapidly mastered advanced foreign technology as well as a series of technology and products which have good marketing prospects and which are favorable to the "base the nation on trade" strategy, it has also been able to constantly innovate on the basis of assimilating advanced technology and form a technological system for mass production which is uniquely Japanese. Japan's practice has shown that reverse engineering can yield enormous economic results. For instance, in order to develop motorcycles, the founder of Honda Company of Japan, Honda Soichiro, personally went abroad to select and purchase good quality motorcycles and brought them back to Japan for reverse engineering research. The company studied more than 500 kinds of motorcyces this way, synthesized all their strong points and successfully developed its own motorcycles which have been popular around the world and have monopolized the international market. In the light of Japan's experience, in order to do well in reverse engineering research, the policy of importing technology solely for use must be avoided; reverse engineering should be given sufficient attention as the key substance of applied research; the level of testing, analysis, computation techniques and equipment capability must be raised to initiate favorable conditions for the development of reverse engineering research.

E. When importing production technology, advanced management and administrative techniques must also be vigorously introduced.

Japan's technical specialists believe that so-called advanced technology does not merely consist of advanced production technology but also advanced management and administrative techniques. They regard business management as part of the study of engineering or technology. Practice has shown that large-scale modern production and major engineering projects would go nowhere without modern management techniques and management measures. In this regard, Japan has paid dearly for this lesson. In the early 1950's, Japan concerned itself mainly with the import of advanced technology and equipment from the United States but paid little attention to management techniques. Most of its enterprises were managed in very much the same way as they were before the war. As a result, even though advanced equipment had been imported, the

quality of products, productivity and cost all fell behind that of the United States. In the late 1950's the Japanese learned from the experience and introduced from the United States and Europe a series of effective management techniques such as systems engineering analysis, input-output analysis, quality control, zero-defect planning, value analysis and so forth. The introduction of these management techniques enhanced the planning, balance and coordination of enterprise production, thereby enabling even more rational use of human, capital and material resources, increasing productivity, reducing production costs, improving product quality and enhancing product reputation.

Similar to the import of production technology, Japan did not stop at imitating and copying when management techniques were introduced but strongly emphasized their development and innovation in combination with actual conditions. For instance, after assimilating and improving the statistical quality control technique imported from the United States, they created a unique, comprehensive quality control system, thereby developing quality control from simple statistical supervision of finished products to implementation of the "quality first" principle, from a product's design and trial manufacturing to production, and from material preparation, processing and production, transportation and packaging to post-sale services, constituting a cyclical feedback system of production quality which included "suggestion feedback" on product quality from consumers.

Practice has demonstrated that importing management techniques is less expensive and has quicker results than importing production technology. Advanced management techniques and advanced production technology are like the two wheels of the same cart of advanced technology, neither one of which is dispensable. Only by making progress in both can the best be brought out in each other.

III. Major Lessons from Japan's Technology Imports

A. Excessive reliance on importation has a negative impact on the development of basic technology.

Postwar Japan actively introduced advanced technology from abroad which promoted rapid economic growth and modernization. Certain practices in Japan's technology imports are generally significant as a source of reference and they should be affirmed. However, owing to Japan's excessive dependence on technology imports, it also formed a force of habit and tendency to neglect basic research. Even though many farsighted scholars have repeatedly warned against the danger such tendency entails, and even though this warning has indeed raised the concern of Japan's monopoly capital and its government, the same Japanese monopoly capital which has benefitted from technology imports and which is governed by capitalist laws of competition, always consciously or unconsciously places its hope on developing technology imports in order to defeat its opponents, thereby compromising the quality of its research system and causing it to lack the vitality, pressure and strength to develop basic technology. By studying the number of patent registrations, volume of technological transactions, volume of added value, export volume of technology-intensive products, input volume of research on exploiting resources and research on developing achievements, and by comparing them with

those of other countries, Japan's Science and Technology Agency did a comprehensive analysis and arrived at some composite indexes which show the relative technological creative capabilities of various countries. It was shown that in the first half of the 1970's the abilities of the Federal Republic of Germany, France, Great Britain and Japan were respectively 37.6, 22.2, 19.3 and 31.3 percent of that of the United States.¹ Japan was below Germany and not quite one-third that of the United States. If the capability in theoretical scientific research and the development of basic technology were compared alone, Japan might have fared even worse. As of the first half of 1980, the United States had 113 Nobel prize winners in the natural sciences, Great Britain 60, West Germany 50, France 22; Japan had only 3 and ranked 13th in the world.² It is undoubtedly a restraining factor on Japan's ability to develop science and technology creatively and to further develop its national economy.

B. A certain degree of anarchy in technology imports results in considerable waste of foreign exchange.

Even though the Japanese government has striven to conduct technology imports in a planned manner through economic legislation and the use of various economic levers and administrative guidance, because of capitalist laws of competition there is no way to resolve the contradiction between planned corporate production and anarchic social production in a capitalist society. Particularly after 1968 when Japan began to "liberalize" technology imports, every enterprise looked upon technology imports as the weapon for competition and competed in imports. Consequently there was rather serious duplication in the technology imported and huge amounts of foreign exchange were wasted. In 1969, an average of four companies simultaneously imported the same technology; this was most striking in the electrical industry in which an average of 5.3 companies imported the same technology at the same time. Consequently, of the total number of technological items imported, the proportion of items that had never been imported became ever smaller. It was 45.5 percent in 1965 and dropped to 26.3 percent in 1970.

C. To a certain extent, imported technology competed with indigenous technology, which impeded its development and sophistication.

The "Foreign investment law" promulgated by the Japanese government originally strictly limited the import of technology that would impede the development of indigenous technology. However, along with the growth of Japan's technological power, the government gradually eased those restrictions, thereby causing the competition between imported and indigenous technology to intensify. According to a survey conducted by the Promotion Bureau of the Science and Technology Agency of the Japanese government, of all the technological items that were approved for import, throughout the years the proportion of those that were also available in indigenous form increased day by day. The proportions in the 5 years between 1966 and 1970 were 44.2, 55.8, 68.5, 71.8 and 68.8 percent respectively. In reality, Japan was totally capable of resolving this type of technology domestically.

FOOTNOTES

1. Nakamura Seiji, "Sengo Nihon No Gijutsu Kakushin" [Technology Reform in Postwar Japan], p 194.
2. KAGAKU ASAHI [SCIENTIFIC RISING SUN] 1980, No 5, pp 68-72.

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HONG KONG ECONOMIC TRENDS

CHANGE IN HONG KONG'S INDUSTRIAL STRUCTURE REPORTED

Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 2 Feb 85 p 4

[Article by Zheng Deliang (ZHENG DELIANG): "A Further Change in Hong Kong's Industrial Structure"]

[Text] After continuous improvements in per capita total output value, there has been an important change in the industrial structure of Hong Kong's urban economy. The general tendency following increases in productivity is for the agricultural sector to drop continually while there is a corresponding rise in the industrial and service sectors. Nevertheless, in the end Hong Kong is an "island" type of open industrial and commercial city and long-term colonial rule has made a deep impression on its urban economic development. Therefore, Hong Kong's industrial structure exhibits certain characteristics.

Since the 1980's, Hong Kong has experienced short-term economic fluctuations while nonetheless maintaining a rather high rate of increase overall in total output value. An average increase rate of approximately 7.9 percent has been maintained (deducting price increases). It is expected that it will be easy to achieve an 8 percent economic growth rate if the momentum of the 1984 increases in export trade continues. Recent estimates made by the Huifeng Bank say that Hong Kong will return to a double-digit growth rate in 1985, based on last year's figures. Since new features have appeared in the course of sustained changes in Hong Kong's industrial structure since the late 1970's.

1. Total output value of the tertiary industry sector continued to rise while that of the secondary industry sector fell swiftly. In 1982, tertiary industry rose to 68.6 percent, up from 57.6 percent in 1979, while the secondary industry proportion fell from 31 to 30.5 percent during the same period, of which manufacturing fell from 25 percent to 21.8 percent. Primary industries only accounted for 0.7 percent, giving the tertiary industry sector overwhelming superiority in the entire urban economic structure of Hong Kong.

2. The focus of the tertiary sector has shifted to financial insurance, housing property and commercial services. In 1970, these three areas only accounted for 24 percent of the tertiary industry figure. In 1979, they rose to 31 percent, and in 1982, to 35 percent. Conversely, wholesale and retail sales, entertainment and tourism dropped from 34 to 28.4 percent. At the same time, inland transit business expansion and exports have tended to rise,

spurred on by transport, storage and telecommunications. Thus, a new feature in the industrial structure of the 1980's is the rapidly growing tertiary industries, centered on the financial, housing properties, and related commercial services.

3. With respect to the secondary industries, growth in construction was second only to the financial, housing properties, and commercial services. This sector now accounts for 7.3 percent of Hong Kong's total output value, equal to the developed tourism industry, while in 1970 it only accounted for 3.3 percent. There is a clear relative falling trend seen in the most important industrial goods sector of Hong Kong's economy, regardless of whether we consider the entire industrial structure or the proportions within the secondary sector. Nevertheless, the electronics and watch-making industries are advancing at a higher speed than ever before. In 1983, the value of Hong Kong's electronics goods exports was 23 percent of the total, versus 12.3 and 19.1 percent in the years 1976 and 1981, respectively. In this time, many observers have predicted that in the near future, because of the rapid development of the computer and advanced electronics goods industries, the value of electronics exports may move from second to first place of total export value, thereby displacing the traditional clothing sector.

4. With respect to the insignificant primary industry sector, the value of the fisheries and sideline and agricultural products industries doubled following the swift decline of agriculture. Imports currently supply practically all of Hong Kong's food. Nevertheless, each year, the 1.5 percent of the population who are farmers supply 38 percent of the fresh vegetables, 55 percent of the poultry, 21 percent of the fresh pork, and 15 percent of the freshwater fish, while the 0.5 percent of the population who are fishermen supply more than 90 percent of the saltwater fish. Together with common agricultural crops, the 1983 total output value was more than HK\$1.3 billion. In addition, Hong Kong's flowers and plants, fruit and ornamental tropical fish have also rapidly developed.

It is estimated that in the transitional stage from now until 1977, the pace will quicken on the reform of China's urban economic system. Economic relationships between Hong Kong and the mainland, particularly economic and technological cooperation relationships between Hong Kong and the open coastal cities, will grow day by day. Such mutually motivating joint development trends will have a profound influence on Hong Kong's tertiary industries as well as on the entire industrial structure.

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HONG KONG ECONOMIC TRENDS

CHINESE CHAMBER OF COMMERCE SPEAKERS TALK ABOUT ECONOMY

Hong Kong TA KUNG PAO in Chinese 8 Jan 85 p 5

[Text] Huo Yingdong, chairman of the Hong Kong Chinese Chamber of Commerce, pointed out at yesterday's 1985 Industry and Commerce Discussion of the chamber after taking a wait and see attitude, pondering and deliberating in 1984, the people of Hong Kong discovered that Hong Kong is still full of life and energy. The year's overall economic growth was steady and the advances made people satisfied with the direction of development. In the new year, although we still face peripheral economic recovery problems like the pressures of trade protectionism, low domestic consumption and a deficit, nevertheless the stage of world economic recession and an uncertain future for Hong Kong have passed. Hong Kong's industrial and commercial worlds should have more faith in facing the future.

Huo Yingdong said that in the past year the Chinese Chamber of Commerce discovered from domestic and overseas contacts that there is a common impression that is quite optimistic and fully confident about maintaining Hong Kong as a free port and international financial and trade center and maintaining prosperity and stability. Therefore, he feels that Hong Kong's industrial and commercial worlds have no reason to lose heart or confidence.

Four speakers invited to attend the discussion were: Wang Guangying, chairman of the board of the Everbright Industry Co.; Li Xiao Baozhen, Jian Fuyi and Li Bailian [7812 4102 6937], assistant officers, Office of Industry (Industry, Technology and Product Standards); Jian Fuyi is a special investigator, senior partner and Chinese Chamber of Commerce Board Member; and Hu Baixi, an attorney. They spoke about the influence of China's economic reform on Hong Kong's industry and commerce, the application of technology to industry, whether real estate and the construction industry would rise again, and futures trading, respectively. The Chinese Chamber of Commerce's chief executive officer, board, and 300 members attended.

Huo Yingdong first took stock of the year 1984 in terms of Hong Kong's success with import and export trade, industry, investment, finance, real estate and construction, tourism, and domestic consumption.

Huo feels that the economic leaps that will be brought about by the reform of China's economic system will give Hong Kong a tremendous role in domestic

trade that will increase daily. It is certain that this tendency will be increasingly advantageous to Hong Kong.

Wang Guangying predicted that if China sustains the policies of opening to the outside world and economic reform, Hong Kong would not only benefit but to a degree greater than that of the past five years. The Chinese people's understanding and implementation of the urban economic reform will provide a vast area for investment and cooperation between the two places. Wang feels that the everyday goods, semi-finished products and goods and materials needed for production that are sent from Hong Kong to the inland must increase and expand, the volumes rapidly rise and expand because of continuous improvements in the lives of the people inland, and further developments in Hong Kong's industry and commerce to meet the enlarged inland demands. He believes that Hong Kong's businessmen can plan for profits and realize them if they can comply with the demands of the situation, praise strengths and avoid weaknesses, steadily discuss appropriate investments, introduce advanced equipment and technology, utilize the inland's abundant resources to start up burgeoning industries, develop the high precision and crucial technology needed by the inland and fill in some of the inland's shortcomings and gaps.

He also said that with respect to industrial production, mainland China in the future might invite some talented technical experts or experienced managers from Hong Kong to be consultants or assist with preparation for China's economic construction. Just as with product exports, this can also benefit Hong Kong quite a bit.

Li Xiao Baozhan reminded Hong Kong's factory owners not to import science and technology blindly. They must take into account the actual value of the science and technology which is imported, for Hong Kong cannot invest much money in basic or grassroots level research and development like the developed countries can. They must also stress science and technology that can really be applied to manufacturing better quality products, improving production or solving particular technical questions so that industrialists can more effectively control and utilize resources.

Jian Fuyi said that various indicators show a recovery in Hong Kong's real estate and construction industries. Developers believe that early 1985 will be the consolidation period for Hong Kong's real estate market. The purchase and rental prices for Haohua residences have increased 10 to 15 percent since [the Sino-British Agreement on the Future of Hong Kong] was signed. This indicates the confidence of Hong Kong and foreign backbone elements. There is a steady supply and demand for industrial building space. It is expected that scrambling for low rent and low prices will not recur. The percentage of vacant industrial space has fallen less than 10 percent. The Hong Kong government began various projects which, in coordination with public engineering works that will develop in the future, will be beneficial to the construction industry. He feels that real estate and the construction industries are entering a relatively stable period, setting the stage for an overall recovery some other time.

Hu Baixi believes that Hong Kong has the conditions to become a successful futures market. Nevertheless a stumbling block is that Hong Kong is not a commodity producer. Hong Kong's futures market will be very lively if China supports Hong Kong in spirit and substance, for example by selling some futures here. This will reduce interference by outside regulations and restrictions, meaning a surely higher position for Hong Kong's futures market on the international scene.

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HONG KONG ECONOMIC TRENDS

INDEPENDENT BANK OF CHINA INVESTMENTS POSSIBLE

Hong Kong MING PAO in Chinese 11 Jan 85 p 3

[Text] Jiang Wengui [5592 2429 2710], manager of the Hong Kong Administrative Office of the Bank of China [BOC] and Vice Chairman of the Board of the BOC, said yesterday that one of the BOC Group's major tasks this year is to greatly assist Hong Kong's industrial and commercial world invest in Hong Kong and the mainland. The BOC itself can make independent investments but has no specific plans at this time.

As always, Mr. Jiang refused to reveal any monetary sums lent by the BOC to local industries and commercial units. He would only say that the rate was 30 percent higher in 1984 than 1983. The bank hopes to maintain the same growth rate in 1985, although a 50 percent increase would be preferable.

Jiang Wengui said that each individual business project must be considered before determining whether a loan or investment from the BOC would offer preferential treatment to Hong Kong's industrial and commercial worlds. He later said that the BOC's interest rate for these loans would be a bit better than the prime rate.

After his speech last night at a dinner meeting of the Taiping Mountain and Western Lions Clubs, Jiang said that quite a while ago the BOC formed an investment company with a certain number of well-known Hong Kong commercial people and other Chinese investment groups. Preparations are still underway. Regarding the company's formal establishment, he gave what he termed a "slippery" schedule. The company could be set up this month or next.

He said that the beginning of everything is always the most difficult part. Once the company is set up, work can proceed rather quickly. At this time the relevant legal procedures have been already settled. The company cannot open for business until problems involving shares and shareholders have been solved. Shares can be announced only after the company has gone public. In sum, the plan to establish this company cannot be cancelled. The necessary registration fees have been paid, possibly at a sum of 500 million yuan.

In his dinner speech, Jiang mentioned that some people say Hong Kong's economy cannot have too many economic ties with mainland China, lest Hong Kong's economy lose its independence out of being overly dependent on the

mainland. Furthermore, Hong Kong's economy is more advanced than the mainland's so if Hong Kong is to depend on inland markets, the quality of its goods will drop.

Mr. Jiang said that this is not the whole story because economic relations between the two are in the main decided by entirely economic factors in addition to political considerations. Taking trade for example, goods can flow to wherever markets are. Goods will not be marketable if they are low in quality and high in price. The United States is Hong Kong's largest export market. This is due largely to economic factors and not any political considerations. Why don't people fear that Hong Kong's trade is too dependent on the United States and so will lose its independent nature?

Turning to investments, funds flow to wherever the investment environment is good. Otherwise no matter how you glowingly present the terms, people will not invest there.

At present the whole world is watching China's economic development. Everyone is interested in China's vast markets. Hong Kong is a waterfront pavilion. It has extremely favorable conditions to strengthen its economic ties with the inland. This can promote Hong Kong's economic development and industrial and commercial prosperity. Provided that the inland investment environment can allow Hong Kong's investors to plan for profits, that inland markets are suitable for selling Hong Kong's goods, and that inland raw materials and products are competitive in the Hong Kong market, then Hong Kong's economic ties with the mainland will strengthen and no one will be able to prevent this.

Some say that China's open door policy and allowing foreigners to invest independently or in cooperation with China is no longer socialism. They say that it is the same as with Hong Kong, having one country and two systems. This is a total misunderstanding.

Jiang said that China presently perseveres in developing various economic forms guided by the socialist economic force of ownership by all the people (i.e., state-run enterprises). At the same time China is developing collective and individual economies as essential and advantageous complements to the socialist economy, subordinate to the socialist economy.

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HONG KONG ECONOMIC TRENDS

NEW FOREIGN INVESTMENT IN HONG KONG REPORTED

Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 2 Feb 85 p 4

[Article: "More Than HK\$11.4 Billion Invested by 507 Foreign Investors in Hong Kong"]

[Text] The number of foreign investors coming to Hong Kong continues to grow. According to data published by the Hong Kong Office of Registration, 215 new foreign investment companies were registered in Hong Kong in 1984. In addition, according to the latest figures provided by the Hong Kong Office of Industry, 507 foreign investors invested HK\$11.46 billion in the year ending 31 December 1984.

Many Medium- and Small-Size Japanese and American Companies Invest

Since the first of the year, the Japanese Nisho Food Products Co was the first to jump into the investment waters. The company signed an agreement with the Industrial Park Co to rent the Dapu Branch of the Industrial Park and build a fast-food noodle manufacturing plant. Next, two American electronics works announced that they would open for business in Hong Kong. A general estimate is that foreign investment in Hong Kong will increase this year, mainly led by the Japanese and the Americans. There will be a new wave of more medium- and small-size companies coming to Hong Kong to invest.

Financial Investments Flourishing Daily

Foreign investment in other sectors is also flourishing day by day. Finance is in the forefront. In addition to the four Japanese and one Dutch investment banks that applied to open branches in Hong Kong in the first three quarters of last year, the following financial organizations came to Hong Kong one after the other to invest following the initialing of the Sino-British [Declaration on the Future of Hong Kong]: At the end of October last year the American [Stevens] Group and the Indonesian Lin Shaoling [2651 4801 5328] clan announced that they would purchase 99.73 percent of the stock of the Chinese Bank of Hong Kong for HK\$337 million; the British Lloyds Group, which previously purchased 35 percent of the stock of Hong Kong's Bao Yuan Investment Co, Ltd, would increase its holdings to 75 percent; and the French Far Eastern Bank would buy seats on the Far Eastern and Hong Kong stock brokerage markets, and were preparing to deal in stocks in Hong Kong.

With respect to the industrial and commercial sectors, the following foreign companies have recently come to invest in Hong Kong: Nihon Denki of Japan and [AKF] of the FRG set up separate wholly owned subsidiaries at the end of November last year. These subsidiaries will be responsible for the Southeast Asian and China business affairs of the parent companies. A joint investment of HK\$20 million was put up to build an airplane tire recapping plant in Hong Kong by the Bridgestone Co of Japan, the Thompson Airplane Co of the United States, and the Airplane Engineering Co of Hong Kong.

Increased Investment by Local British Financial Groups

At present, investments are growing rather liberally since the reorganization of local British financial groups. Cathay Airlines has decided to invest HK\$400 million to buy more new planes. China Power Co is planning to spend HK\$2 billion to build a huge electricity transformer network and transport the power to Hong Kong, in addition to its investment of HK\$200 million to build the Guangdong Nuclear Plant. Hong Kong's International Container Port Co Ltd announced that it would invest HK\$52 million to purchase new container loading equipment. The purchase will be the first phase of expansion of the Kuyong Container Port set for March 1987.

It was reported that some foreign financial groups are preparing long-range and large-scale investments in Hong Kong. Since Hong Kong's relationship with the mainland is growing on a daily basis, more foreign companies are setting up strongholds in Hong Kong. Opening the China market will be a new characteristic of Hong Kong's economic development in the future.

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HONG KONG ECONOMIC TRENDS

COMMERCIAL, RESIDENTIAL DEVELOPMENT AT TRAM TERMINAL PLANNED

Hong Kong TA KUNG BAO in Chinese 1 Feb 85 p 4

[Article by Jiang Guoyuan [1203 0948 0337]: "Wanchai 'Landlords' Have New Development Plan; Bao Yugang Discusses Kowloon Cargo's HK\$1.5 Billion Investment; Commercial and Residential Buildings To Be Built on Tram Terminal Site, Construction To Begin Next Year; Terminal Will Move, Service Will Not Change"]

[Text] Bao Yugang [0545 3768 0474], chairman of the board of Hong Kong's Kowloon Cargo Warehouse Co, Ltd, revealed in an interview with this reporter that Kowloon Cargo is prepared to invest more than HK\$1.5 billion to develop a huge construction plan. The tram terminal in Hong Kong Island's eastern district will be the site of the project. Work is expected to begin next year. The entire project will take 3 years.

Bao Yugang emphasized that Kowloon Cargo will finance the plan independently. Commercial and residential space will be developed on this 112,436 sq ft of land. According to current real estate market estimates, the land is worth at least 500 million yuan.

Kowloon Cargo's profits have recently grown year by year. In 1983 profits were 424.8 million yuan, a 4.25-fold increase since 1977, when profits were 77 million yuan. The company decided to make a major investment with these sustained profits.

In view of the trend to develop the construction industry, it was a wise decision to develop commercial and residential buildings in Wanchai because once the question of the future of Hong Kong is fully resolved, industry and commerce will develop steadily. Foreign investment in Hong Kong will increase proportionately, as will the establishment of offices, meaning a greater demand for building space. A saturation point has been reached for office buildings in the central district. It is estimated that when this construction plan is completed, the site may become a hot piece of commercial space.

According to the estimates of people in the market, the commercial portion of this plan will no doubt be taken seriously and the residential space portion will also be well received. According to preliminary results in the "1985 Construction Industry Critique" released by the Hong Kong Government 2 days ago, it is clear that there will be a greater increase than before in the market demand for large luxury residences as well as medium- and small-size residences.

People are worried about the trams' preservation and abandonment. Once the tram terminal turns into a construction development site, does this suggest that tram service, which is more than 80 years old, will become obsolete?

Bao Yugang indicated that it would be impossible for the development plan at the tram terminal site to reduce or terminate tram service. He revealed that Kowloon Cargo is now searching for a new site to move the terminal. Tram service will be maintained. Trams and the Star Ferry are major sources of Kowloon Cargo's income from public transportation. At present, trams play a rather important role in Hong Kong island's transportation system. Some 400,000 people are carried by trams each day.

The tram terminal is located in the eastern district of Hong Kong Island. It is bounded by Russel, Matheson, and Sharp streets, and Canal E. Road.

At present the tram terminal is mainly used as a repair plant and as a parking lot for all tram cars at night. Each day, approximately 20 cars are under repair at the Sharp St plant. Each night, after being taken out of service, all 163 tram cars are parked in the tram lot.

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